INDIAN FINANCE CURRENCY AND BANKING

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INDIAN FINANCE
Currency and Banking

BY

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PREFACE

This book is designed to furnish a description and criticism of the existing currency system in India. I have also dealt with certain subjects which are more or less directly connected with the currency question, such as Banking, the State Bank, the Railway Policy, the Public Debt, etc.

Part of this book has appeared in the form of articles in the *Modern Review*, the *East and West*, the *Commonweal* and the *Statist* (London), and I cordially thank the editors of these periodicals for their permission to reprint the same.

The appendices contain the full text of Sir James Bigbie's Note of dissent, summary of the Report of the Royal Commission on Indian Finance and Currency, the evidence, and extracts from the criticisms of the Report by Professor Nicholson and "Asiaticus." A bibliography is also added.

The difficulties of the subject are very real to its writer, who has consequently aimed earnestly at clearness, risking platitude and iteration to achieve it. Its shortcomings will be pardoned, by considerate readers, on the ground of the limited leisure in which it was written.

Mylapore, Madras,
December 1914.

S. V. DORAISWAMI.

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CHAPTER I.

THE HISTORY OF INDIA'S CURRENCY *

The importance of the study of monetary problems is not sufficiently realised in this country. To a very great extent our leaders ought to be blamed for this apathy and indifference. There is a tendency to look upon these questions as a matter fit only for the specialists and not for the politicians. It should be observed that no great statesman made his mark in public life without a deep study of financial questions. Pitt, Sir Robert Peel and Gladstone, the greatest Prime Ministers of the 18th and 19th centuries, won their laurels as masters of finance. Bismark was as great a financier as a politician. In our own country Mr. Dadhabai Naoroji and the late Mr. R.C. Dutt, our greatest publicists, made a systematic study of our financial questions. In the present generation our politicians, with the solitary exception of Mr. Gokhale, have not made any systematic study of, or given any attention to, financial questions. This is a weak spot in the Swadeshi programme. Banking should be the basis of industrial and economic progress. Germany and Japan, the countries that have made the greatest economic and industrial progress in recent times, *first put their currency and finances on a stable and automatic basis*

* A lecture delivered at the Kellett Hall, under the presidency of the Hon'ble Mr. Justice T. V. Seshagiri Aiyar.

before building up their tariff system and industrialism. The Franco-German war was fought in 1870 and in 1871. Bismark, with the proceeds of the war indemnity extracted from France, *adopted a gold standard, established* the *Imperial Bank of Germany* and *laid the foundations* of *German Industrial progress.*

In European and American countries there is a vast number of able minds at work on their financial problems. Mr. Bagehot says: "There never was since the world began so high and massive a brain power applied to any one question as is applied to these questions in England."

I do not propose to-day to deal exhaustively with the present problems of currency and finance that are agitating the public mind and which formed the subject of the two Parliamentary debates in November 1912 and February 1913. I shall give a brief sketch of the history of Indian currency from the earliest times. The assertion that India has had nothing but a silver coinage from time immemorial (constantly made by ill-informed and interested critics), and that it is not possible to change the inveterate habits of a people, is utterly erroneous. That the people of India *have used gold money from time immemorial,* preferring gold to silver as currency, is an historical fact beyond dispute. There was no silver money in South India till 1818, when the East India Company forced the silver rupee upon the people for the first time against their will. In 1835 the silver rupee was declared to be the only legal tender throughout India, while gold coins were allowed to circulate at their market value and received in the

Government Treasuries for public dues. *In 1853, Lord Dalhousie demonetised the whole gold currency of India.* It was reserved for the British to accord silver the present dominant position it now holds in the currency. During the centuries of the Gupta and Kushan dominations large issues of gold coins were struck, specimens of which still exist in hundreds. The early Pandya and Chola *coinage consisted exclusively of gold,* with tiger and fish emblems. During the predominance of the Chalukya dynasty *several forms of gold pagodas* were issued some bearing the designs of conch and discus and some of the god Vishnu on them. When Hyder Ali of Mysore conquered the Polygars, he issued gold pagodas with the picture of Parvathi and Siva on one side and his initials on the other. In North India the *Hindu coinage consisted exclusively of gold.* It was the Pathan Kings, who issued the gold mohur and the silver rupee together. Akbar issued a splendid coinage in gold and silver, and Jehangir issued the remarkable zodiacal gold mohurs and silver rupees as well as those famous bacchanalian gold mohurs, on which he is represented as holding the winecup. The Maharajas of Indore and Nepal, the Peshwas and Sivaji, *issued gold coins with Sanskrit inscriptions.*

In 1816 Lord Liverpool reformed the English currency and declared the sovereign as the standard coin, limiting silver as legal tender up to only two pounds and closing the mint to the free coinage of silver.

The East India Company in 1818 instead of following the example of England, declared silver as the standard

for India. They stopped minting gold pagodas and forced the rupee as the standard coin of South India, where gold had hitherto been the principal currency. In 1835 the silver rupee was declared to *be the sole legal tender*, though gold was authorised to be received in the public treasuries and *gold mohurs were coined.* In 1853 *Lord Dalhousie demonetised gold,* declaring that no gold coin of any sort would be received at the public treasury. For the first time India became solely a silver using country:

This act of Dalhousie has been the *origin of all our present monetary troubles. For 62 years we have suffered from the currency muddle intensified by the experiments of every financial quack in power, and a satisfactory system of currency has not yet been established.*

In 1864 the Government of India requested the Secretary of State to make gold legal tender throughout British India at a fixed rate.

This proposal was quashed by Sir Charles Wood, as it was contrary to the principles of sound currency, upon which the British coinage was established by Lord Liverpool's Act, 1816, *viz.*, that one metal alone should be adopted as the standard and coins of other metal, should only be subsidiary legal tender to a small limited amount.

In 1866, a committee presided over by Sir Henry Maine reported that *gold coins were very popular* and advocated the introduction of a gold currency. In 1872 Sir Richard Temple drew up an able minute for the introduction of a gold standard and currency in India. Lord Northbrook did not take any action as gold was appreciating. Finance Ministers like Laing, Trevelyan

and many others have declared that a gold currency is among the urgent needs of India.

In 1876 the Bengal Chamber of Commerce memorialised Lord Lytton to suspend the free coinage of silver. The Indian Government in their reply clearly stated that it would be impossible to suspend the free coinage of silver, *without at the same time opening the mints to the free coinage of gold* as unlimited legal tender, and condemned the Chamber's proposal as likely to lead to an artificial system. But in 1878 *forgetting its sound currency system and open-mint principle*, the Government of India requested the Secretary of State to sanction closing the mints to the free coinage of silver for raising the value of rupees to ten shillings *with the intention of introducing a gold standard.* The proposal was referred to a Select Committee consisting of Mr. Giffen, Balfour and others. They denounced the proposal as one that would *enrich the European community at the expense of the Indian taxpayer.* The India Office consequently vetoed the proposal. In 1892 the Bengal Chamber of Commerce and the European mercantile community, led by Sir James Mackay, now Lord Inchcape, clamoured for the closure of the Indian mints to the free coinage of silver. The report was spread that the Sherman Act was about to be repealed in America. There was no truth in it, but it did duty. The Anglo-Indian merchants wanted to remit Home rupees at the artificial rate of 16*d.* rather than at its bullion rate 10*d.*, at a profit of 60 per cent. They engineered an agitation. The panic-stricken Sir David Barbour yielded to the Anglo-Indian clamour,

and the Government of India, with the sanction of Lord Herschell's Committee, closed the mints to the free coinage of silver, with the idea of *introducing a gold standard* and artificially raising the value of the rupee to 16*d.* Mr. Dadhabai Naoroji, the only Indian witness examined by the Herschell Committee, protested in vain against the proposal.

In 1898 the Government of India's specific proposals were referred to a Committee presided over by Sir Henry Fowler. The Fowler Committee held 43 meetings and examined 47 witnesses, among whom were eminent and independent financiers like Lord Rothschild, Lord Swaythling, Lord Avebury and Indian administrators like Lord Northbrook and others.

The two Indian witnesses were Mr. Dutt and Mr. Rustomjee. The Fowler Committee recommended the *adoption of a gold standard with a gold currency*, the fixing of the sovereign as legal tender at the rate of Rs. 15 ; the *opening of the Indian mints to the free coinage of gold* ; the formation of a special gold reserve ; and the *restriction of gold obligations* by the Government of India.

The Government of India and the Secretary of State accepted these recommendations in entirety and began to carry them out.

In 1899 the sovereign was declared legal tender. In 1900 Sir Clinton Dawkins, the Finance Member, announced in his Budget statement that the draft proclamation for the opening of a gold mint was ready and in *a few weeks a gold mint would be opened at Bombay.*

At this stage the British Treasury put obstacles in the way and in 1903 the Government of India *dropped the scheme.* Afterwards they have systematically departed

from the recommendation of the Fowler Committee with the result that India possesses *a huge rupe ecoinage*, the *sterling obligations have increased, and a gold mint is denied to India.*

In 1912 Sir Thackersay moved a resolution in the Imperial Legislative Council for the opening of the mints to the free coinage of gold.

Mr. Gokhale, Mr. Mudholkar and Mr. Dadhabai supported the resolution. A few months later, the Government of India wrote to the Secretary of State advocating the opening of gold mint in Bombay for the coining of sovereigns and half sovereigns. *Lord Crewe, owing to the difficulties raised by the Treasury, suggested the coining of a ten rupee piece, and the Government of India preferred a ten rupee piece to the restrictions of the Treasury.* At this stage, instead of speedily giving effect to the proposal, the matter was referred to the Chamberlain Commission, who have in qualified language, thrown cold water on the proposal. The Chamberlain Commission in their report have *practically rejected the findings of* the Fowler Committee and recommend to leave things as they are. This is a very unsatisfactory position, as our standard coin is the rupee with is intrinsically worth 9*d*. though its face value is 16*d*. The right of free coinage does not exist, and *Indian should have full facilities, to get gold bullion converted into coins as in other countries*,

A *gold standard without a gold currency is an absurdity* and the *volume of currency* should be decided by the *public requirements* and *not by an autocratic Secret Committee of London Bankers operating at White hall whose interests are opposed to ours.*

CHAPTER I.—contd.

Leading Dates and events in the Currency History of India and other countries.

INDIAN.	FOREIGN.
	1798. England suspends the free coinage of silver.
	1803. The adoption of the decimal system by France and provision for 40 and 20 franc gold pieces.
1806. *Silver selected as the uniform standard of value.*	
	1816. The sovereign, the ***actual gold coin becomes the standard*** in England (first coined in 1485): silver made token money becoming legal tender only up to 40 s. one ounce of gold 11/12 fine exchangeable by law for £ 3. 17*s.* 10½ *d.* or from the Bank of England for £ 3. 17 *s.* 9*d.*

1818. The East India Company *forces for the first time the silver rupee* as legal tender upon the people of South India by *substituting the silver rupee for the gold pagoda as the standard coin* of the Madras Presidency.

1830. Sweden and Norway adopt a gold coin for international trade.

1835. The *silver rupee declared to be the sole legal tender throughout India*—the coining of gold and silver rupees of equal weight and fineness at a ratio of 1 to 15.

1848-50. The beginning of the great gold discoveries of California and Australia.

1853. Lord Dalhousie *demonetises gold* and *India for the first time forced to become a solely silver-using country.*

1854. Portugal adopts the gold standard.

INDIAN.	FOREIGN.
1864. Government of India's despatch and Sir Charles Woods' reply.	
1865. The Indian Government again press their original proposal.	**1865.** The formation of the Latin Union by France, Belgium, Italy and Switzerland.
	1867. 1st International Monetary Conference at Paris.
1868. Sovereigns & half-sovereigns raised from Rs. 10 and Rs. 5 to Rs. $10\frac{1}{4}$ and Rs. $5\frac{1}{8}$ respectively.	
	1871-73. *Germany demonetises silver and adopts the gold standard.*
1872. Sir R. Temple's minute.	
	1873. The Scandinavian Union adopts the gold standard.
	1873. Abolition of free coinage of silver in the United States and Belgium.

1875. Mr. Hollingbery's report *advocating the adoption of a gold standard* in India.	**1875-6.** Adoption of the gold standard by the Netherlands.
1876. The Government of India decide that the *free coinage of silver should not be suspended without* ***at*** *the same time opening the mints to the free coinage of gold* as unlimited legal tender.	**1876.** France suspends the free coinage of silver.
1877. The Government of India enunciate the wise principle that a *sound system of currency must be automatic and self-regulating*.	
1878. The submission of the Indian Government's proposal to close the mints to the free coinage of silver to raise the rupee to 2 *s.* to a committee.	**1878.** Second International Monetary Conference at Paris. Germany refuses to participate.
	1878. Abrogation of the free coinage of silver and adoption of the limping standard by the Latin Union. Passing of the Bland Allison act by the United States, for the monthly purchase of from 2 to 4 million dollars worth of silver.

INDIAN.	FOREIGN.
1879. The Committee's reply rejecting the proposals.	
	1881. 3rd International Monetary Conference for the 'rehabilitation' of silver.
	1885. *The Gold Standard introduced into Egypt.*
	The renewal of the Latin Union, the addition of the principle of *redemption of the silver currency in gold* to the suspension of free coinage of silver.
1886. The Indian Government again press their proposals of 1878, and the Secretary of State vetoes them.	
	1888. Report of the British gold and silver commission.

	1890. The repeal of the Bland act and passing of the Sherman Act in the United States for a monthly purchase of $4\frac{1}{2}$ million ounces of silver.
1892. The *European Mercantile community* led by Sir James Mackay (*now Lord Inchcape made a peer by Lord Morley*) *clamour* for the closure of the mints to the free coinage of silver. The Indian Government *adopts the proposal.*	**1892.** *Austria adopts the gold standard.*
1893. Lord Herschell's committee report: *Act closing the Indian mints.*	**1893.** The 4th International Monetary Conference at Brussels, ends in a fiasco.
	The hasty repeal of the Sherman Act by the United States *owing to the closure of the mints by the Indian Government.*
	1895. Gold Standard adopted by Chile.
	1896. Gold Standard adopted by Costa Rica.

INDIAN.	FOREIGN.
1897. *France and the United States undertake to open their mints to the free coinage of silver and gold if the Indian Government would do the same. The Indian Government reject the officer.*	**1897.** *Russia and Japan adopt the gold standard. Japan fixes the ratio between gold and silver near their market ratio.* Peru suspends the free coinage of silver.
1898. The Fowler Committee.	**1898.** Ecuador limited its legal tender.
1899. The committee report *advocating a gold standard based on a gold currency.* The *Government accept the policy in entirety.* Act declaring the British sovereign legal tender at 1*sh.* 4*d.* to the rupee.	
1900. Sir Clinton Dawkins says that a branch of the Royal Mint would be shortly established in Bombay *for the coinage of sovereigns.*	**1900.** *The Gold Standard Act of the United States.*

Gold Standard Reserve instituted out of profits of rupee coinage.	
1901. Treasury opposition.	
1903. *Proposals for coinage of sovereigns in India dropt indefinitely.*	**1903.** The gold exchange standard adopted by the Philippines: ratio between gold and silver 1 to 32.
1904. Secretary of State's *notification to sell Council Bills at* 1*sh.* 4⅛*d. per rupee without limit.*	**1904.** The gold exchange standard adopted by Panama.
1905. Act authorizing the establishment of the *currency chest of 'earemarked' gold at the Bank of England* as part of the Indian Paper Currency Reserve, and the investment of part of the currency reserve *in depreciated sterling securities.*	**1905.** Adoption of the gold exchange standard by Mexico. The ratio selected 32½ to 1.
Diversion of £ 5 millions of paper currency gold from India to London to be permanently held there.	

INDIAN.	FOREIGN.
1907. The institution of the rupee branch of the gold standard reserve.	**1907.** Mexico reached a gold standard with a large actual circulation of gold.
Lord Morley's *misappropriation of a million sterling* from this reserve *for railway construction Lord Morley declines to publish papers* India Office *mismanagement during the crisis.*	The American financial crisis.
1908. *Loss from hurried sale of securities.*	
1909. Lord Morley *vetoes* the Government of India's proposals urging the propriety of holding a substantial part of the G.S. Reserve in *liquid gold and refraining from further investment in securities.*	
Mr. Gokhale *deprecates the heavy coinage of rupees* of 1905-07, *advocates the cessation of rupee coinage,* and *the coining of gold pieces.*	

1910. Lord Morley *vetoes* the Indian Government's proposals to increase the gold holding in the Paper Currency Reserve and *reduce* the sale of council drafts and transfers; and *declines* to publish correspondence.

Sir James Meston's speech that the next and *final* step in the currency policy of India is a *true gold currency*, and that it would *obliterate all the mistakes, inconveniences, and artificialities*, of our present position.

1911. The Government of India write to the Secretary of State that its views are substantially in agreement with those of the Karachi Chamber of Commerce, *viz.*, (1) that a substantial portion of the G.S. Reserve should he held in liquid gold in India and that (2) the nature, objects and management of the reserve should be *defined by statute.*

CHAPTER I.—contd.

INDIAN.	FOREIGN.
In March, Sir V. Thakersay argues in the Legislative Council that a 10-rupee gold coin ought to be minted and put into active circulation in India.	
1912. Sir Vithaldas Thakersay's resolution in the Legislative Council for the free coinage of gold supported by Messrs. Gokhale, Dadabhoy and Mudholkar.	
Sir V. Thakersay's resolution for the keeping of the greater part of the G.S. Reserve in *liquid gold* in India supported by all the Indian members unanimously was lost by 33 against 24.	
Government of India's despatch for opening a gold mint for the coinage of sovereigns.	

Lord Crewe, *owing to difficulties with the Treasury, suggests a ten-rupee gold piece,* and the Indian Government accept the same.

The Samuel Montagu secret silver purchase scandal and the debate in the House of Lords.

1913. Debate in the House of Commons on Mr. Gwynne's motion for inquiry into the silver purchase transactions by a select committee.

The Royal Commission on Indian Finance and Currency.

1914. Submission of their Report.

CHAPTER II.

INDIAN CURRENCY AND FINANCE *

Now that the question of Indian currency is once again under discussion and a Royal Commission on Indian Currency and Finance has concluded its sittings and is about to report, it seems opportune to draw the attention of the public to the vital issues involved and their influence on our industrial progress and national advancement.

For some years the management of the Indian finances by the Secretary of State for India has been the subject of criticism in India and England from various stand-points. This criticism is directed, among other things, against the Government's disregard of the Fowler Committee's recommendation to open the Indian mints to the free coinage of gold; the mishandling of the Gold Standard and Paper Currency reserves; and the accumulation of enormous and unnecessary cash balances in London. In this article I propose to deal with these as well as the excessive sale of council bills over and above the requirements of the Secretary of State for India; the policy of secret silver purchases, the heavy coinage of rupees, and its disastrous effect on prices; the organisation and working of the India Office Finance Committee; and the vast financial patronage wielded by the Indian Secretary. (The State Bank project, the Railway policy, the problem of National Debt and the financial and fiscal relations between England and India will be discussed later).

* This article appeared in the Modern Review, February *1914*.

The Promised Gold Currency and the Fowler Committee.

Almost every phase of Indian financial policy as directed from Whitehall is to be censured, as the Secretary of State, in his financial operations, influenced by London bankers and bullion brokers, is not acting in the best interests of India.

The Indian Currency Committee of 1898, under the chairmanship of Sir Henry Fowler, was appointed to consider certain proposals put forward by the Government of India for making effective the policy adopted in 1893,—when the Indian mints were closed to the free coinage of silver—and to submit any modifications of these proposals, or any suggestions of their own for the *establishment of a satisfactory system of currency* in India, and far securing as far as practicable a stable exchange between India and the United Kingdom.

It unanimously recommended the establishment of a gold standard ; the fixing of the ratio between the rupee and the sovereign at 15 to 1 ; the opening of the Indian mints to the unrestricted coinage of gold—the Government alone was to have the right to coin silver subject to conditions laid down ; and the accumulation of a special reserve in gold from the profits derived from the silver coinage.

These recommendations are based on sound maxims of economics and finance. Had these been given effect to by the Government in their entirety and with intelligent discretion, the Indian Currency system would have

been placed on a solid basis for ever, and there would be no Indian Currency question today. But the Secretary of State, whilst accepting the recommendations in principle, has systematically departed from them in practice. As a result India is without a gold standard, *a gold exchange standard condemned by* Lord Rothschild and others in 1898 *having been forced on her*, and the Indian mints to this day remain closed to the coinage of gold.

On the 8th September 1899. Sir Clinton Dawkins, while introducing in the Indian Imperial Legislative Council a bill further to amend the Indian Coinage Act, 1870, and the Indian Paper Currency Act, 1882, said :—

"The measure of transcendent importance before us is to place the currency of india *on a gold basis* and a stable exchange. To provide for actual striking of gold coinage at an Indian mint is *really a corollary*, and no practical inconvenience will arise from a short delay. We could not proceed to strike coin until we receive the machinery that has been ordered from England."

He further went on to say :—

"Into the arguments of a gold standard and gold currency, I think no one will expect me to enter. The *arguments for and against have been exhausted*, and Government is proceeding on the condition that *no other measure* would save India from disastrous embarrassment."

In 1900, Sir Clinton Dawkins, in the financial statement made these remarks :—

"It has been decided to constitute a branch of the Royal Mint at Bombay for the coinage of gold. The terms of the proclamation, to be issued, under the Imperial Coinage Act, have been settled, and we are now merely waiting until the Royal Mint has satisfied itself as regards the mint premises and appliances at Bombay. A representative of the Royal Mint is starting this week for Bombay to report."

That proclamation has never been issued and India has had to suffer under the burden of a gold standard without a gold currency.

Opposition From the Treasury.

The recent publication of the correspondence that passed between the India Office, the Treasury, and the Government of India in 1899-1902 on this subject, brings to light three important facts, namely, that the India Office and the Government of India both endeavoured to give effect to the recommendation of the Indian Currency Committee that an open free mint should be established in India as soon as possible; that the Mint authorities in London by a historically inaccurate and economically unsound report misled the Treasury and the India Office; with the result that the Government of India eventually decided to drop the scheme.

The Deputy Master of the Mint in London in his report of the 15th August 1899, went out of his way to remark :—

"The reasons which led to the establishment of mints in Australia do not hold good in India. It appears to me that the early establishment of a mint in India to coin sovereigns is not necessary ."

In May 1901, even after the draft proclamation for opening a gold mint in Bombay was prepared, Mr. Seymour 'felt it his duty even at that late stage' to raise again the question as to whether a branch mint for the coinage of gold sovereigns in India was really needed. The India Office immediately replied—18th June—that the establishment of a gold mint in India "is the clearest outward sign that can be given of the consummation of the new currency system. His Lordship is not inclined to abandon the scheme at the stage it has now reached." Here however, the Treasury unexpectedly backed up

Mr. Seymour and reported that "My Lords are disposed to think that recent experience has shown that it is quite unnecessary to provide facilities for the coinage of gold in India."

The correspondence was accordingly sent back to India. By this time the goldmining companies of Southern India, despairing of ever making a satisfactory arrangement for the conversion of their gold into money at the Bombay Mint, had made new long-term contracts with London bullion dealers. The Government of India having learnt this fact, replied to the India Office that

"In the absence of an assurance that a steady supply of gold of local production will be available for coinage in this country, we prefer to drop the scheme for the present, leaving its revival to the existence or revival of conditions which cannot at present be foreseen" (Government of India's 385 of 25th December, 1902).

The idea which Mr. Seymour and the Treasury endeavoured to establish, namely, that without a large local production of gold, a gold mint is unnecessary, betrays a colossal ignorance of the rudimentary maxims of economics and finance. The gold unearthed annually in Great Britain is only about one thousandth of that mined every year in India. Yet London enjoys one of the largest and best equipped mints in the world. Germany, Austria, Italy and France, which are not gold producing countries, are equipped with gold mints. If Mr. Seymour's argument be sound, then the mint in London, of which he himself was Deputy Master, ought to have been abolished long ago as costly and unnecessary.

Wanted a Real Gold Standard.

These are the reasons that influenced the Secretary of State in departing from a measure which was an integral part of the policy accepted in 1899 and was ripe for execution in 1900. Lord Curzon's Government encountering persistent obstruction from the Treasury and the India Office—influenced doubtless by London bankers and bullion brokers—dropped the scheme in disgust.

When the American crisis occurred in 1907, the Indian Government realised the perils of a gold standard without an effective gold circulation. In a letter to the Bombay Chamber of Commerce the Government of India remarked that

"They have never concealed from themselves the inconvenience attending a gold standard which is not accompanied by an effective gold circulation, and they are in full accord with the view that a more general use of gold among the people would *simplify the task of directing a managed currency.*"

In March 1912, Sir Vithaldas Thakersay moved in the Imperial Legislative Council at Calcutta, that the Indian mints be thrown open to the free coinage of gold. In the course of his speech he said :

"There has never been the least doubt that the goal of our currency policy is a gold standard with a gold currency.........Every day that passes involves a loss to this country and adds to the difficulties in the way of the introduction of a gold currency. The only plausible argument advanced against the proposal is that the people of India are too poor for a gold currency. I cannot understand this argument, because if the people are rich enough for a gold standard they cannot be too poor for its *normal adjunct*, a gold currency As things are, they have all the *disadvantages of a gold system without its advantages.*"

The Hon. Mr. G. K. Gokhale supported the resolution and said :

" The Fowler Committee and other authorities have advocated a gold standard and a gold currency, not a silver currency, as the *permanent*

arrangement for this country. The time has come when we should consider whether we should not enter on the next stage of our currency policy and go in for the coinage of gold pieces, admitting silver, however, for the present, to be unlimited legal tender. But a time must come when silver will have to be *restricted* in amount as legal tender, and *gold* will then have to be the *principal coin* of the country."

The Finance Member Sir Guy Fleetwood Wilson made a non-committal reply and concluded his speech thus :—

"The whole question, with the views of the Government of India, awaits the final decision of the Secretary of State. If his decision should meet the wishes of my Hon'ble friend, no one will be more gratified than the present Finance Minister."

In a despatch, dated the 16th May 1912, Lord Hardinge's government strongly pleaded for the establishment of an open mint in India at which sovereigns could be freely coined, as demanded by the public.

The Secretary of State, in his despatch of the 18th October 1912, to the Government of India made a counter-proposal to issue a new ten-rupee gold coin from the Indian gold mint.

The latest decision of the Government is set forth in the following statement of the Under-Secretary Mr. Montagu, in the House of Commons, July 24, 1913 :—

"The whole question of the proposed coinage of gold is under consideration by the Royal Commission, on Indian Finance and Currency. Pending their recommendations, no action is being or will be taken by the Government of India."

THE ALLEGED DRAIN OF GOLD TO INDIA.

In some quarters there is a strange apprehension that a wealthy prosperous India building up its currency on the same gold basis as that of the rest of the British

Empire, is a danger to the civilised world. Some writers in Europe and elsewhere seem to think that the world *ought to combine* to prevent India receiving payment in gold for the goods which foreign nations have bought from her. This is one of the most preposterous suggestions ever made. Austria, Japan, Russia, Italy, Brazil, Argentina, France, Germany, the United States, and all other countries in the world are to be allowed to take and keep whatever gold they please. There is no reason whatever to be *alarmed* at these cries raised by interested or ill-informed people.*

Any criticism that ignores the annual consumption of gold by Europe and America for the arts and the strengthening of the bank reserves, and magnifies the import of gold by India as a great drain, is not only unsound, but *unfair and dishonest.* Every year Europe and America absorb considerable stocks of gold, without exciting any alarm from these critics.

Here is a list of the chief countries in the world showing approximately the extra quantities of gold added by their Governments and banks to their former gold reserves during the last ten years :—

	Millions sterling
Australia, Belgium and Holland	£ 15
Austria and Germany	„ 40
Japan	„ 17

* It should be remembered that Messrs. Samuel Montagu & Co. were the first to put forward the outrageous suggestion that Government should impose a *stiff import duty on gold* coming to India.

	Millions sterling
Argentina and Brazil	£ 50
France	„ 50
Russia	„ 70
The United States	„ 160

The world's output of gold in 1910, was about 98 millions sterling ; in 1911, it exceeded 99 millions sterling; and in 1912, a hundred millions sterling.

THE INDIAN GOLD STANDARD RESERVE.

The Indian Gold Standard Reserve is the ultimate tangible security for the prompt redemption in gold of rupees, token coins circulating at above their intrinsic bullion value. The Fowler Committee laid down that this Reserve should be held in gold, and all profits on coining should be credited to the gold standard reserve.

It was Sir Edward Law who committed the first blunder by experimenting within this reserve. He invested it in England instead of keeping it in gold in India. Then Sir Edward Baker decided to hold four millions sterling of the gold reserve in coined rupees for his coinage operations. In 1907, a sum of £1, 123,000 was misappropriated, out of this reserve, for railway construction, on the advice of the Committee which sat in London under the chairmanship of Sir James Mackay (now Lord Inchcape).

The result of these experiments is that the Gold Standard Reserve, the key-stone of the Indian Currency System, which it was expressly provided should be held in

gold in India, on the 31st March 1913, consisted of :— £4,000,000 held in rupees in India; sterling securities of a market value of £15,945,669 ; £1,620,000 in gold at the Bank of England ; and £1,005, 664 in cash at short notice in London.*

The American crisis of 1907 shook the Indian currency edifice to its very foundation. Exchange fell to 1s. $3\frac{21}{32}$d. The crisis was over by September 1908. The gold assets were at their lowest point on 22nd January 1909. The total drain was seventeen and three-quarter millions sterling.

If the American crisis had been complicated by a European disturbance the currency edifice would have come down with a crash, because the foundations planned by the Currency Committee had been undermined. If the Secretary of State thinks he could realise millions by the sale of securities in the next great crisis, he is living in a fool's paradise. The Under-Secretary last year announced in the House of Commons that the reserve would be kept intact until it reached a total of twenty-five millions sterling, and that the future additions would be held in gold until a liquid reserve of five millions sterling had been reached. No artificial or arbitrary limit should be fixed to the gold standard reserve ; and there is no use of enumerating principles for future guidance. The errors of the past should be rectified *in toto* and at once. The monetary reserves of every country are kept *in gold, near*

* Indian Budgest Memorandum of accounts ; Parl White Paper.

at hand; not thousands of miles far away. The policy of investing the Indian gold reserve in sterling securities in London is to be deprecated.

In March 1912, a resolution was moved by Sir Vithaldas Thakersay, in the Indian Imperial Legislative Council, for holding this reserve, in India, in gold. All the Indian members unanimously voted for it; but it was lost by the official majority of 33, against 24.

The Silver Question.

Apart from the impolicy of making secret and heavy purchases of silver for purposes of coinage, which is a direct incentive to the formation of speculative rings to control the silver market, the sudden and abnormal flooding of the country with millions of token rupees is to be condemned, as the inflation of the rupee currency is the immediate and dominant cause of the rise in prices, an evil that has assumed alarming proportions in recent years. In the years 1905-7, the Government poured rupees from the mints in a turbulent flood, amounting to 42 millions sterling worth of new rupees. This is the heaviest coinage in the history of the world.

Last year the India Office secretly purchased silver worth six millions sterling through Messrs. Samuel Montagu & Co. This transaction has been censured on all hands on various grounds. Mr. Bonar Law,* in the

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* Mr. Bonar Low complained that getting information from the India Office was like extracting teeth. Mr. Gwynne said that the India Office had practised evasion and prevarication as a fine art.

course of his speech on Mr. Gwynne's motion, in the House of Commons, said that *this business was unwise in the public interest, because it undoubtedly gave the firm obtaining the contract the means of making money to whatever extent they* chose by dealing in silver on their own account. No honest firm would do that, and he did not suggest that it had been so done in this case, but there were other indirect ways. There was tremendous business on this in exchange, and exchange depended on the price of silver. Mr. Bonar Law continuing said that he never had the smallest suspicion of personal corruption on the part of any member of the Government. The kind of curruption they were entitled to fear was not that ministers would enrich themselves from the public purse but of the kind more dangerous to the state of using patronage in order to help a political party and strengthen the political machine. The close personal connection between the Under-Secretary for India and the firm, the fact that the members of the firm were supporters of the Government, and that Sir Felix Schuster, Chairman of the India Office Finance Committee, was also chairman of the bank with which Mr. Montagu banked; all these, as Mr. Gwynne said, taken together constituted a strong case for enquiry.

The only path of safety when a government department has to deal with large financial transactions lies in

the utmost publicity. The India Office silver purchase † transactions should no longer be veiled in obscurity. The French Government has to make periodical purchases of silver for coinage. Details of every purchase are given in an official return showing the quantity acquired, the source of supply, the price, and the commission. The United States Government estimates its annual requirements every year beforehand, and makes proportionate purchases every week. There is no *secrecy*, and there is no *disturbance of the silver market.* The policy of secrecy to which the India Office is committed, is not only bad, but *politically dangerous.*

The Paper Currency Reserve.

Since 1862, the Indian Government have assumed the sole responsibility for the issue of paper money. It is provided by statute that the paper currency shall be supported by a reserve of gold, silver, and securities. The metallic reserve is the support for the paper currency, and can only be required in India. Of this reserve nearly three millions sterling are invested in sterling securities in London, and about six millions sterling are held in the Bank of England earmarked for the support of the paper currency. Sir Edward Baker, the finance member, argued that the portion of the reserve in London is nearer

† In the light of these events it is evident why Messrs. Samuel Montagu and Co., have set themselves up as unofficial apologists for the India Office's management of Indian currency affairs, and disseminate preposterous ideas and imaginative anecdotes by means of their bullion circulars.

the place where silver would have to be purchased and that it provides a convenient means of financing the purchase of silver. This argument has no force, as a special stock of rupees is held in India in the silver branch of the Gold Standard reserve, to meet the sudden and emergent demands for rupees beyond the capacity of the paper currency reserve to meet.

Our contention is that no part of the paper currency reserve should have been transferred to London. It should be held in India, *chiefly in coin*, and if the metallic reserve transcends all reasonable demands upon it, the balance should be invested in India, as previously.

In a great crisis in international affairs sea communication between England and India might be interrupted. What then would be the value of the gold in the vaults of the bank of England for the purchase of silver bullion which could not be shipped? What would be the value of the sterling securities which could *only* be *sold at a great sacrifice* and the proceeds of which could not be transferred to the place where they were wanted? There is a strong belief that the pressure of the City in a crisis would be so great that the Government of the day would not *dare to offend* the London money market.

The Cash Balances.

The Secretary of State has to meet every year in London certain obligations on behalf of the Indian taxpayer; and these include payment of interest on debt, pensions, and certain other charges. They amount in round figures to sixteen millions sterling a year. These

obligations are met by selling by auction every week Council Bills, drafts on the treasuries of Calcutta, Bombay and Madras. By tendering payment in London those who have to make remittances to India can obtain drafts for rupees on the treasuries in the presidency towns in India at a rate fixed by auction at the Bank of England. The system was never a desirable one, because in certain conditions of the exchange market it placed the Government at the mercy of buyers in exchange; and the necessity for its maintenance has passed away. It is necessary that with these obligations to meet the Secretary of State for India should hold a reasonble balance. For many years a sum of about four millions sterling was found fully adequate for the purpose. But latterly the Secretary of State has been selling bills enormously in excess of his needs with the result that in March 1912, his cash balances in London had reached the colossal sum of nearly eighteen millions sterling. The following figures show the balances held in London on behalf of the Government of India .—

1907—about four and a half millions sterling.
1908—eight millions sterling.
1909—thirteen millions sterling.
1910—seventeen millions sterling.
1911—fifteen and a half millions.
1912 March—eigteen millions.

It was officially stated last year that in December, 1911, about four millions sterling had been lent out in London on *no security* whatever to approved banks, and

twenty-one millions had been lent out in London on security to approved borrowers.*

The approved banks who have enjoyed the use of Indian money without security were the Union of London and Smith's Bank, London County and Westminster Bank, National Provincial Bank of England, London Joint-stock Bank, London City and Midland Bank, Glyn Mills Currie and Co. and Barclay and Co.

Lord Inchcape, the then Chairman of the India Office Finance Committee, is a Director of the National Provincial Bank of England. The Governor of the Union of London and Smith's Bank which enjoyed this privilege is Sir Felix Schuster, then a member and now the Chairman of the Finance Committee of the India Office; and Mr. Currie, the other financial member of the triumvirate is associated with the house of Glyn Mills Currie and Co. The average rate of interest on these great loans was a little over 2 per cent. per annum. The average rate of interest in the presidency towns in India is a little over five per cent; in the busy season it often goes up to nine per cent. There is no justification whatever for this gigantic and entirely unwarranted accumulation of Indian cash balances in London, not to serve Indian interests but for the use of

* The most favoured fim on the approved list of the India Office is that of Samuel Montagu & Co. The Chairman of the London and City and Midland Bank is Sir Edward Holden, a prominent advocate of a State Bank for India. He also vehemently opposes the establishment of a gold mint in India.

joint stock bankers trading on inadequate gold reserves, who with the help of *Indian money declare dividends of 20 per cent. and upwards.*

COUNCIL BILLS.

Mr. Montagu in his budget speech last year said that the "only object which the Secretary of State has in selling Council Bills is the facilitating of British Indian trade, which would be brought practically to a standstill if these bills were not issued." This is a very lame apologia. It is no part of the business of the Secretary of State to finance trade. The sales of Council Bills are not necessary to finance trade, nor were they instituted for that purpose. The true function of Council. Bills is to discharge the sterling obligations of the Secretary of State in London. These sums could easily be remitted through the banks as the colonies do and the sales of Council Bills be done away with altogether. Granting that the sales of Council Bills should be retained, it does not follow that the India Office should finance trade. The external trade of India would take care of itself without the guidance of the India Office. Trade all over the world finances itself by the movement of bullion. The excessive sales of Council Bills are, no doubt, a convenience to the exchange banks which have to remit funds to India, and it is often cheaper for them to buy bills than move bullion. *But the three hundred and fifteen millions of Indians do not exist for the benefit of London bankers.* The operation of selling Council Bills

is not even a financial success. The Secretary of State often sells bills, at a low rate, below specie point, *depressing exchange*; and by this device prevents India from receiving in gold the sums that are due to her in payment of the balance of trade in her favour. *This manipulation of India's exchange and currency, not for the benefit of India but solely for the benefit of London joint-stock bankers exchange bankers and bullion dealers should no longer be tolerated.* Indian opinion strongly protests against the Secretary of State's arbitrary and clumsy meddling in trade operations.

Financial Patronage and the India Office.

The financial patronage wielded by the Secretary of State for India, is vast—so vast that he has been described as one of the biggest money-lenders in the London money market, the hub of the financial world. Lord Morley spoke with pride at a meeting of the Banker's Association of the magnitude of the financial patronage which he exercised. He boasted that the maturing and lending of his cash balances* represented a cash business amounting to sixty millions sterling a year; and that the India Office was responsible in the year 1910-11, for a turn-over of one hundred and sixty

* Lord Morley could not have done better than take a lesson from his colleague Mr. Lloyd George who so arranges his income and expenditure that he is frequently in debt to the "City" to the tune of several millions. Mr. George's overdrafts then amounted to 13 millions sterling, of which the Secretary of State for India lent him 4½ millions of India's money.

millions sterling. *It is none of the business of the the Secretary of State to exercise financial patronage on this colossal scale. It is dangerous to vest such a gigantic patronage in a minister of the crown, an irresponsible autocrat of autocrats who operates through a committee of London bankers and in secret It is imperative in the best interests of India and England that the speedy and rigorous reduction of his wanderings in the financial wonderland to the irreducible minimum should be carried out.*

The India Office should be thoroughly overhauled. London joint bank directors and other interested person should be excluded therefrom, and provision should be made for the inclusion of Indians representing Indian banking, commercial, and political interests. *No important financial operation should in future be undertaken without reference* to the Indian Imperial Legislative Council. The India Office should abandon the methods of secrecy and evasion, once and for all. *This could only be done by placing the Secretary of State's salary on the estimates and subjecting the Great Moghul at Whitehall to close and detailed parliamentary scrutiny.* So long as the Indian Legislative Council remains a purely advisory body without any of the powers of a popular democratic representative assembly, it is of the utmost importance that Parliamentary control over the Secretary of State and the Government of India should be *strengthened and made more real, effective and stringent.*

CHAPTER III.

THE ECONOMIC SITUATION IN INDIA AND THE FINANCIAL QUESTION.*

I.—INDUSTRIAL DEVELOPMENT AND MONETARY PROBLEMS.

Natural Resources, Industrial Efficiency, Educational Equipment, Transportation Facilities, a Progressive Government, a Favourable Fiscal System, and *Financial Organisation*—these are the seven essential factors that play a dominant part in deciding a nation's economic progress and prosperity. Industrial development is impossible without a harmonious co-operation of all these. But sound finance is of the utmost importance as finance is the very lifeblood of modern industry. Financial items form the surest and most unmistakable barometric indications that enable us to scan at a glance the economic advance or decadence of a nation. If the movement of finance lacks proper regulation industries suffer and the entire industrial system may break down.

The industrial history of the advanced countries is full of instances to show that finance has given the impetus to industrial enterprise and expansion. The industrial life of England was really born on the battle

* Paper read before the Industrial Conference December, 1914.

field of Plassey. The wealth of Bengal and other Indian provinces which Clive and other adventurers of the East India Company carried away and poured in an unceasing stream gave a remarkable stimulus to industrial expansion and gave England, the commercial, industrial, and financial supremacy of the world.*

It is the *strong financial condition of England and the excellence of her currency and banking systems* that have made her the *richest creditor country* and *London the centre of the monetary and banking world.* As Bagehot said more able minds are at work in connection with financial questions in England than elsewere, and the mass of brainpower brought to bear on the study of monetary problems in that country for over a century is unparallelled in the world's history. Apart from the numerous bankers and financiers engaged in conducting monetary and banking concerns, and professors and experts specialising in money and banking, there are many who give their attention to such questions whole-heartedly connected with various journals mainly dealing with financial topics. More than fifteen journals of this description are published in London alone, the notable being the *Financial News*, the *Financial Times*, the *Financier and Bullionist*, (dailies) the *Economist*, the *Statist*, the *Money Market Review*, the *Investor's Review*, the *Investor's Chronicle*, *Finance*, *Accountant*, *Capitalist*, (Weeklies), the *Banker's Magazine*, and the

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* This is ably dealt with by Brooks Adams in "The Law of Civilisation and Decay" and Burke's speeches on the Nawab of Arcot's Debts and the Impeachment of Warren Hastings.

Financial Review of Reviews (Monthlies). All the London and provincial dailies contain a financial page, while papers like the Times issue weekly financial supplements, and the leading weeklies and reviews often contain important articles on financial questions. This would give one an idea of the men, resources, time, energy and brains devoted to the treatment of financial affairs in the advanced countries like the United Kingdom.

II.—Currency Reform in England, Germany, Japan etc.

Leaders of public opinion in India her businessmen and bankers, should realise the need for currency, banking and financial reform as the economic and industrial situation could not be materially improved before solving the monetary problems. The finances of India should be placed on a sound footing by the reform of the currency system, and the railway and public debt reorganisation—the ground should be cleared for a healthy development of credit institutions. The Congress and other public bodies must place these questions in the forefront of their programmes. The importance of monetary problems and their influence on industrial development have not been sufficiently realised in this country. It is a misfortune that the present generation is singularly lacking in first rate men who systematically study financial questions as Dadhabhai Naoroji, and R. C. Dutt did in the past. In should be observed that the world's greatest statesmet have also been great financiers. Pitt, Peel, Gladstone, Bismarck, Turgot, Todarmall, Hamilton and

Napoleon have left their impress upon the economic history of their countries. Napoleon said "Finance is the State." Every political question *in the last analysis becomes a question of finance and economics.*

The history of England, Germany, Japan and other progressive countries is full of lessons for students of economics. *England built up* her *industries by adopting a rigorous system of protection and perfecting her monetary organisation.* The free coinage of silver was suspended in 1798 and in 1816, the gold standard was definitely adopted, silver being reduced to a Subordinate position by its limitation as legal tender upto only £ 2. The mint price of gold bullion was fixed at £ 3 17*s* 10½*d* per ounce at which it has ever since remained. Any one is entitled to receive for an ounce of standard gold 11/12 fine £ 3 17 *s* 10½ *d* at the mint, or in cash at the Bank of England (because of delay in coinage, less 14 days' interest) £ 3 17 *s* 9 *d*. The influence of Indian wealth on the growth of British manufactures, commerce, and banking is thus set forth by Mr. Brookes Adams in his "*Law of Civilisation and Decay.*"

"The influx of the Indian treasure by adding considerably to the nation's cash capital not only increased its stock of energy but added much to its flexibility and the rapidity of its movement ... For more than fifty years after the foundation of the Bank of England its smallest note had been for £ 20, a note too large to circulate freely, and which rarely, travelled far from Lombard Street. Writing in 1790 Burke mentioned that when he came to England in 1750 there were not twelve bankers' shops in the provinces though then, he said, they were in every market town. Thus the arrival of the Bengal gold and silver not only increased the mass of money but stimulated its movement for at once in 1759, the Bank issued £ 10 and £ 15 notes and in the country private firms poured forth a flood of paper."

Prince Bismarck's first act after the conclusion of the Treaty of Frankfort that ended the Franco-German War of 1870, was the inauguration of the gold standard in Germany by the demonetisation of silver. In 1876, the Imperial Bank of Germany came into full operation and thus the monetary problem was solved in five years by the great chancellor with the result that the currency and banking systems were placed on a stable basis. Having *perfected the financial machinery*, Bismarck next turned his attention *to the fiscal sphere*, abolished free trade and *introduced a rigid and scientific system of protection* in 1879. The industrial genius of the Fatherland has since then astonished the world. France tried the experiment of bimetallism for seventy years from 1803-1873 but abandoned it by the closure of the mints to the free coinage of silver. *In* 1892 *Austria adopted the gold standard and in 1897 Russia and Japan followed. The United States suspended the free coinage of silver in* 1873, *and after a bitter experience of bimetallism extending over a century definitely adopted the gold standard in* 1900.

The two main factors which have contributed to the general adoption of a single gold standard are (1) *the growing preference for gold as the money of commerce* and (2) the *realisation* of the fact that *a sound standard should be of a single metal.* Representing a larger value in small bulk, it is more convenient for reserves and large payments than silver and more easily transferred from place to place and country to country in settlement of

banking balances. A process of natural selection has made gold the standard money of the leading countries.

III.—The Indian Currency System not conducive to Economic Progress.

What is the currency system now prevalent in India? Is it satisfactory? Has it been determined solely in the interests of the people of India? Does it mark a transition stage or does it stand on solid foundations? Is it a system that is conducive to economic progress and industrial development of India? These are the questions of vital interest that ought to be faced with a view to place our currency on a firm and automatic basis once and for all. The Indian Currency System, though said to be a gold standard, *is not a gold standard as it is at present worked.* The silver rupee is the principal coin and is unlimited legal tender. Its exchange value has been fixed at the rate of 16d. per rupee. The English sovereign is also legal tender to any amount. Free coinage whether for gold or silver does not exist. The Indian Government coins, silver rupees but not sovereigns which have to be imported from England at the colonies. The Government is legally bound to issue rupees for sovereigns to any extent but is not bound to give gold in exchange for rupees. The rupee is not a full value coin but is a token worth only 9d. while it circulates at a face value of 16d. Notes are issued by the Government against gold or rupees and a reserve called the Paper Currency Reserve is kept for their encashment mostly in rupees. *As the gold value of the rupee is arbitrarily fixed by the Government at 16d.*

and does not correspond to its market value, the State maintains a sterling reserve, called the Gold Standard Reserve at London for the conversion of rupees into gold to maintain exchange. This reserve built up from the profits of rupee coinage is *mostly documentary,* part being held in rupees and gold. The Government also undertakes to sell council Bills in England against gold tendered to the Secretary of State for India in return for rupees given to the holders of such drafts from Indian treasuries. The Council Bills are liabilities to pay rupees in India for gold received in London.

These are, in brief, the main features of the Indian Currency System as it is at present worked. It is an artificial system "managed" by the Government. The *currency system* of *every progressive country is automatic* i. e., *the quantity of metallic money required of the standard metal is entirely determined by the requirements of the public and the demands of trade.* The open mint forms the pivot of the currency systems of advanced countries. The advantages of the open mint are (1) the *volume* of *currency* is determined *solely by the public* and in response to trade conditions (2) *the free flow of gold* to and fro is maintained in response to *purely international trade balances and market conditions* (3) *Price levels, discount and exchange rates* are *automatically determined* (4) the *right to convert standard coin into the metal* and vice versa, and *export it without loss* is enjoyed by the people so that full facilities for bullion

trade operations are given (5) *elasticity in the currency is preserved* as surplus or redundant coins could be melted down or exported and deficiency made good by the conversion of bullion into coin a*t the mint without State intervention* of any kind.

As the people of India are denied on open mint they possess none of these advantages. Who then determines the volume of currency demanded by India or supposed to be demanded by India? The Secretary of State for India is the supreme financial autocrat but the policy is actually laid down by a secret committee operating at Whitehall with the chairman of the India Office Finance Committee at its head. This functionary it is that *transacts the financial business of the India Office—buys silver for coinage, loans out cash balances, sells council Bills, raises sterling loans, and manages the Gold Standard and Paper Currency Reserves.* The present holder of this office is Sir Felix Schuster. He is at the same time the Governor of a large London Joint Stock Bank and the Director of another. Are Indian interests best served by putting a London Joint Stock banker at the head of the financial committee at Whitehall? Before dealing with the issues raised by this question it is desirable to review the financial and currency policy of the last twenty two years.

IV.—A Twenty-two year Review of Indian Finance.

During the past twenty-two years the Indian Currency System has been the bleeding victim of the vivisectory experiments of successive finance members and secretaries of State. While every country has abandoned the Silver Standard and got rid of the embarrassments of bimetallism by adopting the gold standard, the Indian authorities have been pursuing a policy of confusion worse confounded by a series of wrong moves on the financial chessboard with the result that *our system, in spite of its ruinous cost, is still in a transition stage.*

In 1892, the fall in the value of silver caused fluctuations in exchange. The European Mercantile Community and Chambers of Commerce led by Sir James Mackay (now Lord Inchcape) engineered an agitation to close the Indian mints to the free coinage of silver. The report was spread that the silver purchases clauses of the American Sherman Act were about to be repealed. There was no truth in of but it did duty. Sir David Barbour the Indian finance member wanted to suspend the free coinage of silver. The matter was referred to a committee under Lord Herschell for inquiry and report by the Secretary of State. They did not discuss the cause of divergence in value between gold and silver. In spite of the fact that the majority of the witnesses were against the proposal, the committee recommended the closure and in 1893 the Indian Government suspended the free

coinage of silver. Dadabhai Naoroji gave evidence and *vehemently protested against the course* on the grounds that the *silver storm should be allowed to run its course* and that *artificial and uneconomic devices should not be resorted to.* The warning fell on deaf ears. By the closure of the mints and the fixing of the maximum value of the rupee at 16d. the *accumulated savings* of *the people in silver were at one stroke reduced in value by same 60 per cent.* This piece of confiscatory legislation was enacted by the liberal government of 1892 though conservative cabinets had twice vetoed the same proposal in 1879 and 1886.

The people who gained by this act were the European merchants, traders, bankers, exporters, importers, and officials who were enabled to remit to England rupees at the artificially enhanced rate of 16*d.* rather than at its bullion rate of 10*d.* The avowed object of the policy was to raise the value of the rupee and arrest the fall in the value of silver. As a matter of fact the *value of the rupee fell to 14d.* and the *price of silver* which *in* 1892 *stood at 40d.* per *ounce fell to* 36 *in* 1893 *and to* 29 *in* 1894.

The closure of the mints to the free coinage of silver was not accompanied by a *simultaneous institution of the free coinage of gold* as the Government of India had emphatically declared in 1876, *though it was made clear* that the policy of the Government was the *adoption of the gold standard.* Nor for some years was any action taken by the authorities to carry out the policy of the gold standard officially announced in 1893.

In 1898 the Government of Lord Elgin made an attempt to establish the gold standard by melting down rupees and forming a gold reserve. The proposals were referred to a Committee presided over by Sir Henry Fowler. That Committee, who were expressly asked not to reopen the silver standard controversy, conducted an exhaustive enquiry, examined many independent witnesses like Lords Rothschild, Swaythiling, Avebury, Northbrook and Aldenham, Sir Robert Giffen, and others and *recommended the institution of a gold standard based on a gold currency, by India.* To carry out this policy they recommended (1) the opening of the Indian mints to the free coinage of gold sovereigns and half-sovereigns (2) the fixing of the exchange value of the rupee at 16*d.* (3) the formation of a gold reserve from the profits of rupee coinage to be held in gold in India to be freely available for export to support exchange and (4) the restriction of gold obligations by resolute economy of expenditure.

The Secretary of State for India and the Government of India accepted these recommendations in entirety, endorsed them as their policy, and at first endeavoured to give effect to them. British sovereigns were declared legal tender at the rate of 15 rupees per sovereign, but the *gold mint project* after an announcement in the council *was abandoned indefinitely.* A gold reserve was accumulated. Thus the most important recommendations were *not only shelved but a policy distinctly opposed to the establishment of a gold standard based on a gold currency was inagurated little by little in secret and*

without the knowledge of the Indian people. The absence of an open free mint coupled with the right to coin rupees vested in the Government gave rise to a *series of currency and financial monstrosities* which have been moving in a vicious circle. The active anti-Indian and anti-gold policy may be said to date from 1904 when the Secretary of State notified that council bills would be sold to any amount freely and without limit on the absurd principle that Government should finance trade. The idea of putting gold in active circulation was abandoned, and an era of furious coinage of rupees commenced. The unlimited sales of council bills sales led to an enormous artificial demand for rupees which in turn led to huge silver purchases and abnormal rupee coinage, which increased the gold standard reserve and gave large funds for the Whitehall autocrates to handle—or mishandle, to be more correct—as they pleased. The movement extended in a vicious circle as the following table would show :--

(1). Absence of a gold mint open to free coinage.

(2). Government control of silver coinage operations.

(3). Enormous sales of council bills to transfer funds from India to London.

(4). Abnormal artificial demands for rupees.

(5). Further transfer of funds from India to London out of Reserves (Currency and gold standard) over and above the usual remittances.

(6) Heavy purchases of silver at London.

(7) Abnormal coinage of rupees in India, rise in prices.
(8) Further sales of Council Bills.
(9) Depression of exchange—cash balances in London by transfer of stale funds from India by Council Bills.
(10) Arrest of the flew of gold to India, transfer of 5/6 of the Gold Standard Reserve and a large portion of the Paper Currency Reserve gold to London—Investment in depreciated securities, etc.
(11) Purchase of silver, coinage of rupees, &c.

India and a Gold Standard.

From 1908 onwards the India Office has been accumulating *huge cash balances* from the Indian treasury and loaning them out in London *at less than half the Indian bank rates.* The *secret contract* for the purchase of £ 5 millions worth of silver in 1912 given by the India Office to the firm of Samuel Montagu and Co., whose *head is the brother of Mr. G. S Montagu, M. P.*, then Under Secretary and *cousin of Mr. Herbert Samuel, M. P.*, a *cabinet minister*, evoked fierce criticism and raising grave issues brought matters to a head. An enquiry into the silver purchase contract was demanded in the House of Commons. That demand was dexterously evaded by Mr. Asquith but a Royal Commission was appointed to enquire into the India Office management of cash balances, reserves, etc. The Commission presided over by Mr. Austen Chamberlain while advocating same minor reforms and suggestions *have whitewashed the India Office and* in their Report *plead for leaving things as they are.*

So far as the central issue is concerned *viz.*, what the goal of our currency policy is, the Commission *has reversed the policy laid down by the Fowler Committee* though it does not say that frankly. The Gold Exchange Standard is said to be the proper standard for India, and we are told that *gold circulation is wasteful*, the maintenance of exchange is of paramount importance, the Gold Standard Reserve should be held in London, and a free hand should be given to the India Office to manipulate the Reserves, Balances, and Council Bill sales at their sweet will and pleasure.

It is for the pepole of India to decide whether the type of Gold Exchange Standard the authorities backed up by the Chamberlain Commission are endeavouring to force on her should be adopted finally or to *insist on the permanent establishment of the gold standard which has been set forth for the past twenty-two years as the official policy.*

What then is a gold standard ? The gold standard proper is the system with a gold coinage where there is *neither free coinage nor full legal tender for silver.* This is the system now prevalent in England, Germany, Russia and the United States. The limping standard is the system *with a free coinage of gold* where silver still possesses unlimited legal tender but is kept at a parity with gold by the suspension of free coinage, and *the offer of redemption in gold* as in France, Belgium, Mexico, etc. The gold exchange standard is the system where the actual currency is full legal tender silver kept at a parity with gold by the

abrogation of free coinage and the offer of redemption in gold exchange. This system is in force in Panama and the Philippines. The exchange standard is only a *temporary makeshift* and marks a *transition stage* in the evolution from a silver to a complete gold standard. The Indian system as it is at present worked has *all the evils* of these three types but few of their advantages.

The question of questions is then what is to be our currency system. Are we to forget the lessons of the past, reject the currency systems of the civilised world as "backward" or "wasteful", go to the Far East or Central America for a model, blindly accept the new fangled currency nostrums sonorously expounded by interested armchair theorists and wirepullers, as the last word in monetary evolution, and in addition to the *numerous experiments that have been performed during the past two decades embark lightheartedly upon another* by *adopting the Exchange Standard* as the Chamberlain Commission and the India Office want us to do? Or are we to take progressive countries like England, Germany, France, the United States and Japan as our models and adopt the gold standard pure and simple placing our currency on a stable and automatic basis?

In 1908-09, the Hon'ble Mr. G. K. Gokhale said "The only way out of our difficulties is *to follow the example of the United States and France*, and while admitting the rupee to unlimited legal tender, *stop fresh coinage of rupees* and *go in* for *the coinage of gold pieces*." In 1912 Mr. Gokhale supported Sir Vithaldas Thakersays' resolution for the opening of a gold mint in India

and said, "The *Fowler Committee and other responsible authorities have advocated a gold standard and a gold currency*, not *a silver currency as the permanent arrangement* for *this country*. The time has come when we should consider whether we should not enter on the *next stage of our currency policy* and not go in for the *coinage of gold pieces*, admitting silver, however, for the present to unlimited legal tender. But a time must come when *silver will have to be restricted in amount* as *legal tender* and *gold will then have to be the principal coin of the country*." Mr. Mudholkar, Sir V. Thakersay, Mr. Dadhabai, and others took the same line. It is evident that so far as responsible leaders who have thought about our currency problem are concerned, the gold standard based on a gold currency is the only system that should be adopted.

In order that a gold standard should be firmly established the following reforms are necessary:—(1) the *coining of rupees should be stopped* (2) the Calcutta and Bombay mints *should be opened to the free coinage of gold—ten-rupee and twenty rupee gold pieces* (also higher units if desired) as the sovereign apart from its *unsuitability to India as a popular coin has been* the *cause of the obstructive attitude of the Treasury and the jealousy of the London money market* (3) The council bill *sales should be abolished* and *remittances by the Indian Government to the Secretary of State should be made through banks.* (4) *Customs duties should be levied in gold to ensure* a steady supply (5) *sterling obligations should be restricted* (6) The Gold Standard Reserve should

be held in India in gold, the Bank of England being instructed to liquify securities within a definite time, say a year, at suitable moments without seriously disturbing the money market (7) The Paper Currency Reserve *should be mostly if not entirely in gold and in India* (8) The Notes should *be made gold notes gradually* (9) Silver *should be relegated to a subordinate position and its limit as legal tender should be gradually reduced till gold becomes the only legal tender above a certain amount.* (10) The India Office Finance Committee *should be abolished* and *no London banker should have anything to do with Indian finance* (11) A clear-cut *programme* spread *over a number of years should be kept in view and fully carried out.*

If these measures are not carried out the currency problem will remain unsolved and *so long as it is in chaos economic progress will be checked. No banking development on any adequate scale is possible until gold forms a dominant part in the metallic circulation and the country's reserves are held in gold.*

The vicious features of the currency system now in operation, and the hostile forces at work should be clearly realised and reckoned with. The basis of the whole system is that the Government *adapts the system so as to secure stability of exchange for its own convenience.* The maintenance of the gold exchange value of the rupee, considered from the

point of view of foreign exchange, has been the guiding principle of the official policy during the past twenty-two years. *Every other consideration has been sacrificed to this central idea.* The mints were closed to raise and maintain exchange in 1893, and the *artificial, wasteful, and complex* arrangements for keeping a sterling reserve massed in a foreign banking centre, London, have been guided by the establishment of the stability of the gold price of the rupee for the purposes of foreign exchange. The primary functions of money as a *medium* of *internal* exchange, as a *store of value*, and as a *standard measure of value*, (including deferred payments)—so vital to the people of India—and the *evils of the enforced inconvertible token standard* are neglected by the authorities. The European mercantile community in India who control the foreign commerce of this country, and a section of the London money market—the Exchange banks, joint stock banks, bullion dealers, silver interests, export and import firms—who are the gainers by the present system at the expense of the Indian taxpayer are *the people who vehemently oppose Indian currency reform*, and *who have the ear of* the Secretary of State in *preserving the status quo.*

VI.—India's Financial Condition and British Bondholders.

The financial power England wields over other countries is enormous. An idea of the capital investment of British investors overseas can be had from the following

figures. In the beginning of this year the total investments were distributed thus:—

In British Possessions—

	Millions of £
British North America	515
Australia	426
Africa	408
India	379
Other Br. Possessions	52
	1,780

In Foreign Countries.

United States Cuba and Philippines	796
Latin America (Argentina 320, Brazil 148, Mexico 99, Chili 61, Uruguay 36, Peru 34)	724
Europe (Russia 67, Turkey 19, Spain 19, Italy 12, Portugal 8, France 8, Germany 6)	193
Egypt	45
Japan	63
China	44
Other foreign countries	70
	1,935
All the World	3,715

Including private undertakings, the total overseas investments of British capital amount to £ 4000 millions and the total national capital amounts to £16,000 millions. The total net savings of British investors annually exceed £ 250 millions, which are invested at home and abroad in Government securities, municipal bonds, railway stock, and industrial and commercial securities. The British people *grow richer* by being the *international sowcars*, and *it is to their interest* that *other countries become perpetual debtors. Financial domination leads to economic and political domination* and the history of Egypt is a case in point.

We are constantly told that *perpetual borrowing is necessary to convert India into a new El Dorado.* In the Budget of 1914-15 provision has been made for a loan of £11⅓ millions, £ 8 millions to be raised in London and five crores of rupees in India. This is due to the £12 millions railway programme. This raises three grave issues *viz.*—

(1) Is the abnormal increase of the Indian public debt at this rate beneficial to India ?

(2) Does a big railway programme on this scale at the present stage of India's economic evolution really increase India's material prosperity and offer a remedy for the prevention or cure of famine ?

(3) Are there are not other and more pressing needs that are now starved but clamour for more expenditure in the best interests of the taxpayers ?

The excessive railway expenditure and inflated army charges block the way of educational and sanitary progress. The paramount cultural needs of the country loudly call for a radical change in the policy of the Government in regard to heavy capital outlay on railways and increase of the public debt, especially the sterling obligations incurred in London.

The attitude of the Strachey-Inchcape school that now holds the field and directs the financial policy of the India Office is admirably summed up by Mr. Wilson * thus " Take comfort in the thought that Indian 'credit' is improving on the London market in spite of that steadiness with which Indian exchange points towards bankruptcy ; that famines rather improve the situation by clearing off the surplus population which our humane administration permits to grow up in too great numbers ; that the debt is growing smaller in weight, in spite of the new millions borrowed every year ; and that all 'public works ' whether they be canals that salt the soil, or abandoned railways, or barracks that need to be built three times over before they consent to stand, are a distinct boon to the Indian people ". The real state of affairs demolishes this rosy and fanciful edifice. The prosperity painted by the British bureaucrat is " wholly manufactured from above. Every public work, every new branch of manufacture, every ' improvement', no matter what, is as much superimposed upon the Indian people as our godlike administration itself. It is, therefore, something

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* A. J. Wilson—An Empire in Pawn (Fisher Unwin—London).

for which these Indian people have to pay. *The Englishman, not the Indian, draws the interest and dividends* paid upon the railway-capital, just *as he does that upon the war-created debt, or public works "reproductive" expenditure.* What is prosperity to the Englishman may consequently be death to the native. It may be perfectly true that the Indian exchequer is now paying less of the guaranteed interest out of the general taxes than it did years ago, but that makes no difference to the essential situation, which is, *that the Indian people pay altogether more now than they ever did. More of the nett proceeds of their labour goes every year to pay the foreign debt charges under one head or another, because the aggregate of these charges increases.* This consideration goes to the root of the matter, and discloses the mischievousness of most of the official writings on India."

The argument that India grows richer if the revenues of the railways and public works grow larger and larger rests on a fallacy. The increased revenue only implies a more complete stripping of the Indians by the European trader, who comes in as the complement of the alien government. *Nearly all the capital engaged in Indian foreign trade is in the hands of British bond holders. Almost every profitable industry is controlled in the interest of English capitalists.* Jute, tea, coffee, spices, indigo, rubber and cotton, are grown by Indians for English planters. *The increased foreign trade* of *India so far from proving augmented Indian prosperity proves the exact reverse.* In order to compete in the English or other foreign markets, the English merchant has to sell

cheaply, and he buying at his own price practically dictates terms to the producers of wheat, rice, and cereals. The crops reared with increasing difficulty owing to the *poverty of the ryot* and the *diminishing yield of the soil*, have to be rushed into the market either to meet the Government land revenue or the usurer's demands, and are mostly taken by the usurers at their own valuation, by whom they are in turn sold cheap to them European merchant or his agent. Where that is not the case, the English capitalist himself controls the cultivator and crops and is the usurer. Once sold, the crops are hurried out of the country by the railways whose freights are conveniently arranged in the interests of foreign commerce by an obliging administration.

The *increasing foreign debt swells the home charges* and has been the *root cause* of the exhange difficulties we have had to face: The currency legislation of 1893 initiated by Sir David Barbour of bimetallic proclivities, arbitrarily fixed the exchange or convertible value of the silver rupee into gold at 1*s.* 4*d.* instead of the old 2*s.* Ever since this fictitious value of the rupee has been maintained by the liberal expenditure of fresh capital raised annually in England, the manipulation of Reserves and treasury balances, additional taxation, Council Draft Sales, and varions acts of financial leger-demain. Notwithstanding all these erratic wanderings in the financial wonder land, the actual currency of India remains depreciated and debased, silver and paper, but the exchange value into gold is arbitrarily fixed.

The most tangible result of this debasement has been the rapid full in the purchase value of the rupee and the *abnormal rise in prices.* The *poverty of the masses has been intensified by the debasement of the currency.* From the seventies to the nineties bimetallism of a bastard type was the favourite pancea of official India for all monetary troubles; and now officialdom sings the praises of the Exchange Standard or to be more accurate the present *inconvertible token standard.*

VII.—India's Public Debt, Borrowing Capacity and Railway Expansion.

The problem of problems facing us is this. Is the economic condition of India improving by the maintenance of a system which draws out of the country annually about £ 45 millions to feed the profits of British traders, to pay for all manner of Government services, to cover the charges for pensions, for furlough allowances to Anglo-Indians on holiday, to meet interest on debt, profits on capital invested in India, and to cover the ever increasing charges imposed by the Indian Army?

The Indian Debt that stood at £ 21 millions in 1805 rose to £ 69·5 millions in 1858, in 1860-61 to £ 102 millions, in 1901-2 to £ 226¼ millions and now amounts to £ 300 millions. While the *gross annual income per head has been stationary* at £ 2 (as reckoned by Lord Curzon) or £ 1½ (as calculated by Dadabhai Naoroji), the *public debt has been swelling.* This policy of perpetual borrowing must cease. India's borrowing capacity has been

strained to the utmost. The annual income per head in Canada is £ 48, while in the United Kingdom it is £ 42. The Public Debt of the United Kingdom now stands at £ 725 millions. The burden of public debt in the richest countries like the United Kingdom the United States, France and Germany *is nine to fifteen times less than it is in India* considered in proportion to the annual income per head.

The big railway programme should no longer be tolerated. *No kind of guarantee direct or indirect, or profit sharing agreement of any sort should find a place in the budget of India.* The State should have nothing to do with financing railways. Railroading should be left entirely to private enterprise as a business proposition pure and simple.

A pre-eminently agricultural and poor country like India does not require railways on the scale industrial and wealthy countries do. The proper policy to be pursued in India is to spend *more money on canals, inland waterways, roads, and irrigation, to rejuvenate decaying arts and crafts and promote pioneer industries.* India is in need of cheap transportation facilities. The scheme of Sir Arthur Cotton to connect the river systems of the Ganges, the Indus, the Mahandi the Godavari, and the Narbadha by a network of canals and navigable waterways should be placed on the forefront of the public works programme. The development of inland trade is of more vital importance to India than the foreign commerce. The

United States and Germany spend millions every year on inland waterways.

The financial system should be radically reformed. The finance committee of the India Office in whose hands the secretary of State is a puppet, should no longer be allowed to conduct gigantic financial operations in secret and dispense financial patronage on a colossal scale. London joint stock bankers whose interests often conflict with ours should be excluded from Whitehall. *Unless the finances of India are placed on a satisfactory basis, India is endowed with an automatic currency and gold standard*, the *State abandons its attitude* of *laisser faire and adopts a scientic protective system*, and a *State Bank on national lines is established to give stability to the monetary system by keeping India's money in India and for India* and *provide cheap money to the agriculturer, trader*, and entrepenuer, the *economic condition of India could not be materially bettered.*

CHAPTER IV.

THE PRINCIPLES OF MONEY.

To enable the reader to perceive the drift of Indian currency discussions in their proper perspective, I propose to deal briefly with the principles of money in this chapter and give a short account of the monetary systems of the advanced countries in the next.

I.—The Functions of Money.

The essential functions of money are six: money as (1) a medium of exchange (2) a common denominator (3) a standard of value (4) a store of value (5) a standard of deferred payments (6) a reserve for credit operations.

1. *Money as a medium of exchange.*

The *fundamental utility of money is its acceptability or exchangeability.* Money does away with the difficulties of direct barter, owing to its universal acceptability. The gradual substitution of exchange by money for exchange by barter has been one of the greatest agencies in

civilisation. Without *money in its simpler forms industry would have been strangled in its infancy, whilst the modern developments of industry have only been possible through a corresponding development of money.* The effects of the use of money in the world of industry are often complex and obscure, and the theory of money (including credit and banking) presents some of the most difficult problems in economics.*

2. *Money as a common denominator.*

A common denominator affords the opportunity of referring each transaction to a common unit and comparing the value of articles, one with another. If there were no common denominator, it would be necessary to calculate the value of every exchangeable article in the value of every other article. In the language of John Stuart Mill, regarding the tailor " the calculations must be recommended on different data, every time he bartered his coats for a different kind of article, and there could be no current price or regular quotations of value."‡ The adoption of a common denominator in the form of money does away with all these difficulties and complications.

3. *Money as a Standard of value.*

The function of money as a standard of value is closely related to its function as a common denominator.

* Nicholson's Principles of Political Economy.

‡ J. S. Mill's Principles of Political Economy II, p. 17.

It is the standard that gives form and fixity to the common denominator. A standard of value is a convenient scale by which values are expressed after their measurement has been made in terms of human desire or satisfaction. The adoption of a standard as nearly fixed as may be is of cardinal importance in the creation of a proper monetary system. In a country having a fixed *standard* the *assurance exists that contracts expressed in terms of money will be discharged in a known quantity of metal of a comparative stable value.* This gives certainly to business transactions and permits large enterprises to be carried upon a small margin of profit. Efforts have been made in several states to preserve the value of money by changing the weight of metal in the coins without changing their denominations. *Prices rise in proportion that the metallic money has been deteriorated*, and it requires the same weight of metal as before to obtain a given article,

4. *Money as a Store of Value.*

Money is a store of value because it enables value to be embodied in a compact commodity generally acceptable and capable of being kept for an indefinite period without loss. Money is the one store of value that never loses exchangeability against other commodities. This is the reason for the great hoards of gold and silver formerly accumulated by powerful states for war necessities—illustrated in modern times by the hoard of

six millions sterling kept by Germany in the fortress of Spandau. There can only be three classes of property having intrinsic value; consumable commodities (including (raw materials); fixed capital (invested in factories, railways, land, etc.); and money. Consumable commodities cannot be hoarded without loss. Fixed capital may become useless if the demand for its products ceases, ore may deteriorate in value for a variety of reasons, (*e.g.* the depreciation of gilt edged securities, etc.). The quality of money as a store of value has attained a new development in modern times by the use of banking credits, which constitute titles to metallic money. *Banking credits owe their value to their negotiable character.* They are exchanged against commodities when commodities are desired, but are capable of exchange against metallic money if money becomes more desirable than commodities. The use of money as a store of value is important in effecting transfers from place to place.

5. *Money as a standard of deferred payments.*

The use of money as a standard of deferred payments is one of the results of the development of credit in civilised societies. As time is an important element in production, it is necessary that the amount to be paid at a future time should be accurately expressed to the satisfaction of both debtor and creditor.

6. *Money as a reserve for credit operations.*

Money is used as a reserve for credit operations. Considerable sums are kept seemingly idle but they really

serve the important function as a basis for credit operations. A large proportion of the coin in various countries is kept in reserve by the banks or the Government.

II.—Kinds of Money.

Money may be classified in three ways, 1. as actual and ideal money, 2. as metallic and paper money, 3. as standard and token money.

1. Actual money is that which actually circulates. Ideal money or money of account is that in which accounts are kept. Its use may be due to necessity or habit. Guineas are now unknown in England: yet sales are often effected in Great Britain in guineas instead of pounds and professional fees are reckoned in guineas.

2. Paper money as opposed to metallic money may be subdivided into three classes,—representative, fiat, and fiduciary money. Representative money consists of paper which certifies that an equivalent amount of coin or bullion is deposited in the Government treasury, like the American gold and silver certificates. Fiat money consists of paper whose value rests on the fiat or declaration of the Government like the American 'green backs'; the French assignats etc. Fiduciary or credit money consists of promises issued by private or semiprivate institutions to pay coin, like bank notes.

3. Standard money is money which is legal tender for all debts and used as the standard to which the value of all other money is referrable. ***Standard money is full weight coin like the British sovereign or the American eagle—the value of which is virtually equal to that of the bullion contained in the coin.*** Token or subsidiary money consists of coin whose legal or mint value exceeds that of the bullion, and whose coinage is not free, in the sense that no private individual is at liberty to demand that the Government exchange his bullion for coins. Generally token or subsidiary money is also not legal tender. In India, the position is anamolous. The rupee, though a token coin and not a full-weight coin is unlimited legal tender.

III.—The Qualities of money.

Gold and silver have for nearly twenty five centuries performed among civilised peoples the functions of the medium of exchange and standard of value, and various fractions of them, determined according to the history and traditions of each nation, have served as the common denominator of transactions. The essential qualities of money possessed by the precious metals are :—1. Value in Exchange 2. Stability of Value 3. Homogeniety of material 4. Durability 5. Divisibility without diminution of value 6. Large value in small compass 7. Adaptability to coinage.

1. *Value in Exchange.*

The primary quality of money is value in exchange. Gold and silver have intrinsic value and they have

become in the course of forty centuries the most highly prized and eagerly sought articles within human knowledge. The peculiar characteristic of the precious metals, and *more particularly of gold in advanced societies*, is that they have not been adopted as money arbitrarily by a single people or a few peoples, but that their inherent responsiveness to all the conditions of a medium of exchange, a standard of value, and a store of value have made them the chosen medium and standard of every civilised community.* Money does not derive its value wholly from its use as a medium of exchange. Gold and silver were valued even in primitive times because they possessed value as merchandise, conformed to the other requirements of money, and were capable of conversion to many uses in the arts.

2. *Stability of value.*

The value of metallic money in exchange does not necessarily vary in exact proportion with the supply, but it is essential that the article employed should be precious, difficult to obtain and should cost for production nearly as much as its value in exchange. Gold conforms pre-eminently to these conditions. There have been fluctuations in the supply but they have not been radical enough to seriously affect its value except on two occasions—the opening of the American mines in the 16th century and the output of California after 1849. The fluctuations which then occurred in the exchange value of gold were

*C. A. Conant Principles of money and Banking.

due to the relative smallness of the stock which was then in existence. Later years have brought much larger supplies into the market without affecting in any such material degree the exchange value of the metal, because the new supplies have borne a smaller proportion to the accumulated stock. It is one of the important conditions of a sound monetary standard that it shall not be subjected to violent fluctuations in the supply of the standard metal. Gold derives its stability of value from the difficulty of making large annual additions to the supply and its indestructibility.

3. *Homogeneity of material.*

Silver and gold both conform fully to the requirement that their material shall be so hemogeneous that a given weight of either is equal to another given weight in value. An ounce of pure gold from the mines of California is of equal exchange value with an ounce of equal purity from South Africa, Australia, or India. This uniformity of value is of great convenience and high importance in the material used for money.

4. *Durability.*

The durability of precious metals without deterioration, is a quality of high importance for their monetary use. Gold and silver do not evaporate like alcohol, mould like wheat, or putrify like flesh; nor do they corrode like tin, rust like iron, or oxidise like copper. Silver loses a little of its brilliant coloring by long

exposure but does not lose its weight and value. Gold changes hardly at all by exposure to the air. Both metals wear slightly by handling in long use, but only a fraction of one per cent. a year even when passing constantly from hand to hand. This wear, or abrasion, is so slight that it affects the value of a coin only after many years, and can be determined in advance with almost mathematical precision by those in charge of the mintage. The quality of durability without deterioration is of importance where the precious metals are hoarded as a store of value in giving them value in exchange and in permitting their conversion from money to industrial uses and back again into money.

5. *Divisibility without diminution of value.*

Ten pieces of gold containing one tenth of the weight of a gold sovereign are worth exactly as much as a sovereign. The division of gold into the most minute quantities or its accumulation in the greatest bulk do not change the value of each particle. A diamond of 20 carats is worth many times the value of twenty diamonds of one carat. Gold and silver are subject to no such limitations in their qualification for use as money.

6. *Large value in small compass.*

The element of large value in small compass is an important one in modern exchange, because it contributes to the easy transfer of money from place to place. It is

this fact which gives money a substantially *uniform value in all parts of the world at the same time.* In this respect *silver is decidedly inferior to gold.*

7. *Adaptability to coinage.*

Of all the metals gold and silver are most easy to recognise at the first effort by sight, sound, weight or chemical test. Their composition admits of stamping or of marking denominations without much cost. They are neither too hard nor too soft. Walker sums up some of the superior advantages of gold thus: "the fusibility, ductility and malleability of gold form a group of properties of the highest importance in coinage, while they add vastly to its uses in the arts industrial and decorative."

IV.—The Principles of Coinage.

Coinage consists in dividing a metal into pieces of uniform size and fineness and indicating these characteristics by stamps. Coinage gives to pieces of the precious metals that last touch of perfect exchangeability which is essential to make them money. In the discussions that have taken place between the advocates of the gold standard and those of the double standard stress has often been laid upon the facts that *money of full intrinsic value would stand the test of fire*—That coins of gold when melted into ingots would not lose any of their original value. It is in the form of coin that the precious metals represent their highest utility in oridinary transactions. In

international trade they appear in the form of bars rather than coin. Bullion constitutes the raw material of coined money. As only coined money is employed as a medium of exchange, coined pieces have often risen to a considerable premium above their bullion contents in cases where the supply has been limited and the *mints have been inaccessible.* A regular movement of this sort carried bullion from Australia to England and coin in the opposite direction until Australia was provided with her own mint; *and such a movement still goes on between England and South Africa, and between England and India.*

When coins are made of the standard metal, so that the *metal in the coin represents the value for which it is exchanged*, the privilege of *free coinage has come* in *advanced civilised states to be universally established.*

Free coinage means that any holder of the standard metal may take it to the mint and there have it cast into multiples or sub-divisions of the standard unit, conforming to the law and stamped with denominations indicating its value. It is this right of the individual owner of bullion to have it freely converted into coin which keeps *the coins and the bullion of the same exchange value, weight for weight*, and insures the owner of bullion the certainty that he can have it transformed into legal means of payment. Why this privilege should be open to every holder of the metal is thus set forth by Chevalier: "The adoption of the precious metals or of one of them only as the material of money signifies that any one may

discharge his obligations by means of a proportionate quantity of gold or silver. Hence arises the strict right for every owner of bullion of carrying his property to the mint to have it clothed with the sign which denotes its quality in a manner indisputable by the creditor. The *minting of gold is properly free in England*, because gold is there the legal tender, which every creditor desires in payment and which he is bound to receive."*

Where free coinage exists, the *state does not control* the quantity of standard money in use. The quantity is controlled by those who from motives of self-interest bring bullion to the mints to be coined. If there is a demand for coins, bullion is freely brought to the mint; if the supply of coins is excessive, they can be melted up for exportation or conversion into plate, with the knowledge that when the demand for them again arises they can be replaced by bringing back bullion and offering it again for coinage. Thus the *control of the supply of standard money is automatic, under the operation of the rule of supply and demand.* The state has only the peivilege of determining whether the money issued conforms to the uniform standard prescribed by law.

In Great Britain gold *is coined gratuitously* at the cost of the public treasury. Every one is entitled to get for every ounce of gold, coin at the rate of £ 3 17s 10½d at the mint or £ 3 17s 9 d at the bank of England (1½ d

* La Monnaie p. 113.

representing two weeks' interest). The wear and tear of coin is also provided for by an appropriation from the public funds. (In 1891, the late Lord Gosehen rehabilitated the British coinage at a cost of £ 600,000). This is the case under the German Imperial Coinage Law and the Austro-Hungarian law of 1898. In France the coinage was renewed in 1891 by the withdrawal of worn pieces. By the law of 1897, renewing the charter of the Bank of France, the duty of sorting out the light coins and transporting them to the mints was imposed upon the bank at its branches, in order to bring up to a uniform standard of excellence the coins in and around Paris with those circulating in the provinces. This policy of providing for the wear and tear of coin contributes to keep the coins constantly up to the standard weight. If a charge were made for substituting coins of full weight for those of light weight, there would be a tendency to keep light weight coins as long as possible in circulation.

When a charge is made for coinage, it is called *seigniorage* or *brassage*. The latter term is usually limited to the approximate costs of converting bullion into coin, while the term seigniorage is applied to the retention of a larger proportion of the bullion offered as a means of profit to the State. When the State defrays the cost, the conversion of bullion into coin and coin into bullion will be less hampered and therefore more frequent, than when a charge is made. In the *United States, England, Germany, France, Austria, Russia and Japan the coinage of gold is gratuitous.*

Debasement can take place in three ways: by diminishing the weight of the metal from which the coin is made; by raising the nominal value of a coin and making it legal tender at a higher rate than before; and by lowering the standard or fineness of the metal. When the weight of the metal is diminished by private individuals, it is called clipping or sweating. But it was formerly also practised by governments. Debasement by raising the nominal value of the coin was common in mediæval Europe. The Indian rupee is a debased coin as its nominal value (16d.) is much higher than its real bullion value (9 d.). India is the only civilised country where this debasement is tolerated. Debasement by lowering the standard of the metal was also a device of mediæval monarchs. The purposes of debasement have been first the discreditable one of securing for the king a revenue arising out of the discrepancy between the nominal and actual values, and secondly the creditable but often mistaken belief that a change in the weight or fineness of the coin would effectually prevent its exportation. The immediate effect of issuing debased coin is a profit to the Government that issues them; *but the ultimate result is a fall in the value of money and a rise in the general level of prices.*

Under the policy of free coinage it is not practicable for a State to charge materially more than the brassage or the cost of manufacture of the coins without deranging its monetary system. The fact that the coined money

cannot be obtained except by payment of the full seigniorage for converting bullion into coin, will contribute to keep up the value of such an amount of coin as is required for carrying on transactions, but it will also tend to prevent the melting up of the coins when the amount in circulation becomes excessive. *For exportation outside the country where a coin is used, it can have substantially only its value as bullion.*

The influence of the variations in the demand for gold upon its movement from one country to another, under the rule of supply and demand will not be discussed now as it properly comes under the subject of the foreign exchanges. It should be noted here that in foreign trade metallic money loses much of the distinctive value it derives from being coined and is sought as merchandise in the form of bars. These *gold bars of international commerce so* well known in Europe and America weigh 400 ounces each; and the Bank of England (and the Continental State Banks) is always ready to purchase them at 77 s. 9 d. per oz. (The *absence of a gold mint in India makes it impracticable for Indians to deal in these commercial gold bars.* Such bars are preferred to coin because of the greater *ease of handling* them and the greater uniformity of their *weight due to the absence of wear and tear.* This fact is taken advantage of, even in countries on a gold basis, by raising the charge on bars when it is desired to husband the national stock of gold. The Bank of England,

while paying its notes freely in gold, frequently changes the *price of bars.*

Gold bars must be converted into coin in order to be available for internal circulation. In the case of countries having large stores of gold, the immediate conversion of the bars into coin is sometimes delayed and the bars are available for re-export in case of need without going through the double cost of conversion from bars into coin and back again from coin into bars. Where the demand for gold for foreign trade is frequent, the coins of foreign countries are sometimes kept in stock ready for shipment to those countries in case gold is demanded to settle trade balances with them. The Bank of England delivers American eagles for shipment to America, and the Bank of France holds Sovereigns for shipment to England. The fact that such coins are held to meet demands for shipment abroad operates to advantage in fixing the price of gold. The price of American eagles is raised by the Bank of England when it is desired *to check the export of gold to* the United states. The Bank of France raises the price of sovereigns when it desires to throw obstacles in the way of the movement of gold from Paris. The German Reichs-bank draws gold when desired by paying a better rate for foreign gold coin than the tariff price of other State banks.

These general principles apply only to the coins of the standard metal and not to subsidiary and minor coins. Subsidiary coins (which are often called token coins when they are tokens for more than their value as

bullion) usually contain metal of less value than that declared on their face. *Only the standard coins are subject to the free-play of the laws of money in trade between* nations, and the subsidiary or token coins remain within the country where they are issued. The principle which keeps up the value of these coins, when their value depends upon the supply, is that of their marginal utility as a means of carrying on small exchanges. The Government takes under its own determination the quantity of coins which are not made of the standard metal and which in most cases contain less bullion than the exchange value they represent. In England the Government issues silver coins whenever requested by the Bank of England; but as the bank is compelled to pay for the coins at their face value in gold, the profit being taken by the Government there is no motive to demand more than will be absorbed by business. On the contrary, there is the strongest motive for the bank *not to impair its gold resources by paying them out for* token coins which are not needed.

Since the fall in the value of silver which began in 1866, Germany, France, Austria, Russia, Japan and the United States by adopting the gold standard and suspending the free coinage of silver, have reduced silver to a subordinate position in their coinage leaving their mints open to the free coinage of gold.

CHAPTER V.

The Monetary Systems of the Advanced Countries.

The ideal currency system is that which combines *the single gold standard with the issue of convertible bank notes.* Under such a system where the standard metal is coined freely and without charge upon deposit of bullion at the mints by any holder of it, *the metallic money is responsive to the influences of demand for gold throughout the world. Gold comes and goes according to the state of prices and rates of interest for capital.* In a country where the stock of gold becomes deficient, rates of interest rise, and gold is attracted from other countries. If the supply is excessive, the rate of interest falls and gold goes out of the country. A country having gold as the standard currency is governed by an automatic law without intervention of the authority of the State and by the play of the self-interest of the mercantile classes in all gold using countries.

Redeemable bank notes are the printed promises of a bank to pay coin of the standard metal on demand to the full face value of the notes. Where such promises are scrupulously fulfilled, without cost or difficulty for the

holder of the notes, and with ample provision for the full payment of notes in cases of failure of the bank, the redeemable bank note constitutes the most effective auxiliary to the coins of the standard metal for carrying on business. The issue of redeemable bank-notes has been restricted in most countries by recent laws to a single institution with large capital and ample resources like the Bank of England, the Bank of France, the Imperial Bank of Germany, the Austro-Hungarian Bank, the Bank of Russia, and the Bank of Japan. The large central banks are more or less under the influence of the State, and in several cases the governor of these banks is appointed by the Government. But these banks are not owned by the State except in the case of the Russian, Swedish and Bulgarian banks, *where the entire capital is furnished by the State and the management is vested in the Government.* The Reichsbank of Germany, the Austro-Hungarian bank, the Bank of the Netherlands, the Bank of France, the National Bank of Belgium, and the Bank of Japan are *semi-public institutions* where the capital is furnished in whole or in part by private individuals but *a considerable degree of State control and often State participation in profits exist.* The Bank of England is practically though not legally a quasi-public institution.

A monetary system which is based upon a single metallic standard, with the free coinage of the standard metal conforms most nearly to the condition that *money shall always be equal in intrinsic value to its exchange value*

i. e., the metal in a new coin issued from the mint melts up into an amount of the metal in market value to the face value of the coin. *Such a coinage enters readily into the system of international trade, because coins of one country can be melted up and recoined into those of another without less.* Exports and imports of the standard metal, whether in coin or bullion are not hampered by any loss upon the conversion of one coin to another. In Great Britain though values are measured in gold, the currency in actual use consists largely of paper. The use of convertible bank-notes affords an economy in the use of the standard metal and affords a convenient tool of trade meeting all the purposes of currency without requiring a heavy investment in gold. Gold coins and the notes redeemable in gold co-operate with each other to meet legitimate demands for currency in the most economical and efficient manner and to put a restraint upon undue expansion of the volume of money in circulation. The fact that the *notes must be redeemed on demand in gold prevents their issue in excessive amounts*; and the volume of money and the volume of paper currency adjust themselves automatically to the needs of trade.

A system of *free coinage of gold with the employment of convertible notes* is substantially the system of England, Japan, Germany, the United States, Russia, Australia and Egypt. The last two countries employ *more gold as a circulating medium* than the others. The circulation consists chiefly of gold in Egypt owing to

the lack of extension of the credit system, and in Australia owing to the fact that the local gold production causes the general use of gold coin *in preference to bank-notes.* In England, Germany, Russia and Japan, gold coin is the standard of value, but convertible bank notes are also largely used. In these countries the currency system also contains subsidiary silver coins and minor coins of copper or bronze or nickel. These coins invariably contain metal of less value as bullion than the nominal value of the coins. These subsidiary and minor coins are issued on its own account by the Government, and the quantity is strictly limited to keep their face value independently of their bullion value. These coins play no part in determining the monetary standard of any country, because they are not legal tender for unlimited amounts. As these coins are a form of credit currency, which would be dangerous if abused, but within proper limits form a safe and convenient auxiliary to standard coins and redeemable bank-notes, they are reduced to a subordinate position in the currency system and consequently have no influence on the standard of value.

The limping standard of France, Italy, Belgium and Switzerland *is not so simple and scientific* as the single gold standard with convertible bank-notes. In these countries where bimetallism has broken down, the mints are left open to the free coinage of gold but have been closed to the free coinage of silver. When this suspension occurred large amounts of coins of both metals

were in circulation ; and it has been not easy to retire the silver coins. But systematic efforts are being taken to *reduce silver to a subordinate position and keep down their ratio to gold.*

The monetary systems of the advanced countries consist of a currency made up of gold coin as the standard, silver and minor coins which are tokens, and redeemable banknotes. England, Germany, and Russia have the *largest proportion of gold coins,* and bank-notes issued in these countries are redeemable in gold on demand. Austria, Italy, and Spain suspended for some time the redemption of banknotes in gold, by Italy and Austria have restored gold payments. The approximate stocks of gold and silver coins in various countries in 1905, is given in the following table :—

	Gold.		Silver.	Ratis of gold to silver.
	Reserve in Banks and Treasury.	Total.		
	£	£	£	
Great Britain ...	37,600,000	112,000,000	22,400,000	5 to 1
Germany ...	34,100,000	184,000,000	42,000,000	4½ to 1
Russia ..	87,000,000	171,000,000	16,000,000	10½ to 1
Austria Hungary ...	49,300,000	61,400,000	21,000,000	3 to 1
Argentina ...	14,000,000	20,000,000	...	
The United States...	191,160,000	284,000,000	137,000,000	2 to 1
France ...	111,000,000	206,500,000	82,000,000	2½ to 1
Japan ...	12,000,000	14,000,000	8,700,000	1⅗ to 1
China ...	...	...	70,000,000	
Italy ...	38,000,000	...	38,000,000	
India ...	4,000,000	56,000,000	120,000,000	1 to 2 2/7

The *prominent characteristics of the monetary systems of* England, the chief self-governing colonies, and the principal nations of Europe and America are that

(*a*) gold coins form the chief metallic currency, silver coins expressing fractions of gold coins being reduced to a subordinate position :

(*b*) The mints, established by the Government, for the free and unrestricted coinage of gold money are open to the public to be used when and as the public desire: and

(*c*) the minimum of interference and manipulation of the currency by the Government is permitted, as the quantity of gold money is entirely determined by the demands of the public and in no way by the Government.

An open mint, freely accessible to the public is the central feature of an advanced currency system.

The vital importance of an open free-mint lies in the fact that where it exists, the quantity of metallic money in circulation, is automatically determined in accordance with the people's requirements and trade pressure ; movements in the foreign exchanges take place automatically ; and variations in price levels and discount rates are automatically adjusted to the levels of other countries in response to trade conditions. In the absence of an open free mint, the manufacture of money and the determination of its quantity is dependent upon the whims and caprices of the Government authorities ; the general level of prices, the current rates of interest and discount, and the foreign exchanges are not subject to the free play of

trade conditions and public requirements but are *manipulated, artificially arbitrarily, and autocratically in response to the wire-pulling of interested parties.*

In 1666, an act was passed in Great Britain which enabled any person—alien or native—to bring gold and silver to the English mints to be coined. This act established the right of free coinage in England. The free coinage of silver was suspended in 1798 and abolished in 1816, but the right of the free coinage of gold exists to day. The right of free coinage existed in India till June 1893, when the mints were closed to the free coinage of silver, with the object of *establishing a gold standard.* In spite of the recommendation of the Fowler Committee of 1898 to open the Indian mints to the free coinage of gold, and the half-hearted and spasmodic attempts of the Indian Government to carry out that policy, *an open free mint has been denied to India for the past twenty one years.*

COINAGE.*

Years.	Gold.	Silver.	Total.
THE UNITED STATES.	dollars.	dollars.	£
Total coinage from 1793 to 1911 inclusive ...	3,270,260,000	971,902,000	896,464,000
UNITED KINGDOM.	£	£	
Total coinage from 1870 to 1911 (1870 to 1911) inclusive ...	302,115,884	43,669,358	362,666,135

* Arranged from the Statistical Abstract for foreign countries [Cd. 6698] 1913.

CHAPTER VI.

THE REPORT OF THE ROYAL COMMISSION ON INDIAN FINANCE AND CURRENCY 1913-14.

I

The recommendations* of the Royal Commission on Indian Currency and Finance leave things very much as they are. They offer no solution of the Indian Currency problem nor do they contain any useful suggestion towards the final establishment of the Indian Currency system on a stable and automatic basis. The greater portion of the Report deals with the refutation of charges levelled against the India Office—which is, after all, a side issue—in handling the cash balances of India in London. On the whole, it is a *whitewashing report*, pleading vigorously for the *maintenance of the status quo.*

Having come to the conclusion on the events of the last fifteen years that the Gold Standard has been secured whithout a gold currency being in active circulation, the Chamberlain Commission do not consider that a gold

* For Summary of the Report and Extracts-See Appendices.

mint is necessary, and are unable to recommend the establishment of a gold mint on its merits. At the same time they have nothing to say against a gold mint or the circulation of gold, but add that the latter will displace notes rather than rupees. If Indian sentiment genuinely demands it, and the Government of India is prepared to incur the expense, the Commission has no objection in principle to the establishment of a gold mint either from the Indian or Imperial standpoint, provided that the coin minted is a sovereign or half-sovereign.

No substantial departure in the currency policy of the Government is contemplated by the proposals made in regard to the investment of the Reserves, the expansion of the paper currency and the loaning of Cash Balances to Indian Presidency Banks. So far as the Gold Standard Reserve is concerned, the Commission have refused to fix a limit to it; they insist that a large part of it should be held in gold and recommend the abolition of the silver branch, but hold that the most suitable place for its location is London. They are unable to report for or against the State Bank, but suggest the early appointment of a small expert committee to examine the whole question in India, either to pronounce against the proposal or to elaborate a detailed and concrete scheme capable of immediate adoption. They have handed to the Government of India a Note prepared by Mr. J. M. Keynes and Sir Ernest Cable on the subject. They desire that the Paper Currency system in India should be elasticised, and do not follow the cautious policy

laid down by the Bank Charter Act of Sir Robert Peel for the maintenance of the paper currency of England. The increase of the fiduciary issue enabling further investment, and the temptation of earning interest weigh more with the Commission than the difficulties these practices would lead to in a time of crisis endangering the safety of the system.

In respect of the Cash Balances, the Commission recommend that the Government should make a practice of granting loans to the Presidency Banks: but they have nothing to say on the question whether the constitution and working of these Banks justify this particular preference being shewn to them or how far they serve Indian interest and capital, and are beneficial to the taxpayer.

The Commission suggest a change in the date of the commencement of the financial year to November 1st or January 1st for framing more accurate budgets and fixing the borrowings in London with closer regard to immediate needs, advocate the increase of rupee loans in India, and exonerate the City members of the India Council from the charge of having showed any kind of favouritism in placing on deposit with certain banks of which they are directors, part of the India Office balance, though it is advisable to avoid as far as possible all occasions for such criticism.

Sir James Begbie appends a reservation note urging the *discouragement of the extension of the token currency*, and *the issue of gold coins* from an *Indian mint of value*

more suitable for general currency use than the sovereign or half-sovereign. He is not convinced that a case has been made out for the location of the metallic portion of the Gold Standard Reserve in London. It *should be held in India* and *earmarked* for the *support of the exchange,* and when it has to be used for export, transfer to India should be made when the Reserve in London is again drawn up in support of the exchange. He also considers that the coin reserve of the Paper Currency Reserve should be *held exclusively in India,* since the transfer of a portion to London is not calculated to improve the credit of the note issue.

The comments of the London papers on the Report are significant. The *Times* says that the general effect is that though certain of the criticisms of the India Office's control of the Indian finances were apparently justified, the more extreme attacks were not substantiated. The portions dealing with the administration of balances held in London on the whole bring much relief and will silence many unwarrantable statements. The *Morning Post* says that the decision that the change to gold currency was not worth having will be acclaimed in the city. These comments* reveal in a flash the *hostility of a powerful section of the City* to Indian Currency Reform, and their satisfaction concerning the Commission's report.

II

Since the closure of the Indian mints to the free coinage of silver and the tampering with an automatic

* The Financial Times, Daily Mail etc. also took the same line.

currency in 1893, the Indian Currency System has been the subject of experimentation by successive finance members and Secretaries of State.

Of the twenty-eight witnesses who were examined by the Herschell Committee, only twenty were asked their opinions about the desirability of closing the mints to the private coinage of silver with a view to the ultimate adoption of the gold standard; eleven witnesses were against it and only nine in favour of it. The Committee, in spite of the opposition of the majority of witnesses, recommended the closure. Lord Courtney clearly pointed out that they did not discuss the preliminary question of the cause of the divergence in value between gold and silver. The Home Government stood in the way of any international settlement for restoring silver to its original position, and the Government of India insisted that no other course than the one they proposed lay before them for rescuing them from their financial embarrassments. Lords Farrar and Welby added that the terms of reference were too narrow.

By a single stroke of the pen, the accumulated savings of the Indians (in 1893) in silver were written down, some 66 per cent.

The avowed object of the closure of the Indian mints in 1893 was to limit the coinage of the rupees in the hope that their value would gradually rise. As a matter of fact the exchange value of the rupee fell for a time even below

14*d*. The report was spread that the silver purchases clauses of the Sherman Act were about to be repealed. There was no truth in it, but it did duty, and mints in India were closed to carry India over *a temporary crisis. The remedy was worse than the evil.* The price of silver in 1892 was about 40*d*. per oz., in 1893 it was 36, in 1894, it fell to 29.

The clamour to close the Indian mints rose from Anglo-Indian merchants led by Sir James Mackay (now Lord Inchcape) who wanted to remit home rupees at the artificial rate of 16*d*. rather than at its bullion rate 10*d*., at a profits of 60 per cent. The panic-stricken finance minister, Sir David Barbour, yielded to the clamour and the wealthy Nabobs took advantage of the ignorance and innocence of the government of Gladstone. It must be said that it is greatly to the credit of Conservative Governments that their principles in currency matters were sounder and more sensible. The proposal, to which the Liberal Cabinet yielded, had twice before been rejected by the Conservatives in 1879 and 1886. The following paragraph of the Treasury Despatch of 1879 is instructive :—

" It appears that the Government of India in making the present proposal lay themselves open to the same criticisms as are made upon governments which have *depreciated their currencies*. . . . The Government scheme may relieve the Indian Government and *others who desire to remit money* to England, but this *relief will be*

given at the expense of the Indian taxpayer, and with the effect of *increasing every debt due by ryots to money-lenders*."

This is exactly what happened in 1893 when the Government closed the mints to the free coinage of silver and raised the value of the rupee artificially to 16*d*. From 1893 to 1898 the following peculiarities of the Government's currency management are noticeable :—

1. 1893. Omission to definitely declare that Council Bills would not be sold in furture below 1*s*. 4*d*.

2. 1893. Omission to impose a high duty on silver and thereby restrict the flow of silver.

3. 1893-4. Heavy coinage of rupees in spite of the avowed restriction.

4. 1894. Sudden sale of Council drafts *for any price* —fall of the rupee to 1*s*. 1*d*.

5. 1896. Investment in securities of a portion of the Paper Currency Reserve and release of more rupees—2 crores.

6. 1898. Rejection of the proposals of France and the United States for an International agreement.

7. 1898. Proposal to melt down twenty-four crores of rupees.

III

The Indian Currency Committee of 1898, over which Sir Henry Fowler presided, recommended the institution *of a gold currency and gold standard*, and advocated the throwing open of the Indian mints to the free coinage of gold. The Government of India accepted the recommendations and prepared to put them into execusion. In 1899 gold was made legal tender in India and in 1900 Sir Clinton Dawkins said that a branch of the Royal Mint would be established and a proclamation to that effect would be issued. But the proclamation was never issued, and the Government's preparations came to a sudden end owing to the opposition of the Treasury.* Though the Government of India took the initial steps necessary for the establishment of a gold currency in India, its subsequent actions have been singularly lacking in steadfastness of purpose.

After one ill-fated attempt, Government abandoned the idea of putting gold into active circulation and proceeded to enter upon a *prodigious silver coining policy calculated to jeopardise the gold currency scheme.* In the teeth of the repeated protest of successive finance ministers that trade should depend on its own efforts and not look to the Government to finance the commerce of the country, the Secretary of State has accepted and acted upon the quaint doctrine that any man who presented gold to the India Office in London and demanded rupees in exchange therefor in Calcutta, Bombay or Madras,

* This has been already dealt with in detail, see Chap. II, page 23.

was fully entitled to receive those rupees in unlimited quantities, and exactly as they were wanted. Notwithstanding the Budget statement of Sir Clinton Dawkins (in 1900) that India had at length emerged from a period of transition in her currency and had reached the goal—a gold standard and a gold currency—to which she had been struggling for years, the Secretary of State undertook with a light heart the duty of financing the whole trade of India, not in the way the Indian minister desired, but in such a way as the banks and mercantile houses desired, *regardless of the rate, market conditions, his requirements and the interests of the taxpayer in not depressing exchange.* Millions after millions of new silver were purchased, and in 1905-07 nearly 45 millions sterling worth of rupees were poured on the Indian public.

In the manufacture of new rupees on a prodigious scale, the omission persistently to introduce gold coins into circulation, the failure to establish an open mint for the free coinage of gold in India, and in adulterating the Gold Standard Reserve with silver, and acquiescing in the transfer of the greater portion of that Reserve and a substantial portion of the Paper Currency Reserve from India to London, for investment in gilt-edged securities and loans to "approved banks" and borrowers, and in submitting to the India Office's excessive and abnormal drafts on the Indian treasuries, the Government of India have assisted in the carrying out of a *currency policy radically opposed in essentials to that laid down by the Fowler Committee.*

In May 1912, the Government of India addressed a despatch to the Secretary of State for the opening of a gold mint and the extention of gold circulation, urging that that step would *keep down the heavy responsibility* that rests on the Government for the convertibility of the rupee and thus *simplify the problem of exchange.* In October 1912, the Secretary of State replied that on account of the objections of the Treasury, he was *prepared to sanction the minting of a separate Indian gold coin such as a ten-rupee piece.*

Instead of giving effect to this decision arrived at after a lengthy correspondence, the matter was once again referred to the Chamberlain Commission appointed in 1913, who in qualified language have at last thrown cold water on the proposal.

IV.

From 1901-1910, the following points mark the innovations of the Government's Currency policy:—

(1) 1901—Failure to open the mints to the free coinage of gold.

(2) 1901—Abandonment of effort to put sovereigns into circulation.

(3) Investment of a large portion of the gold reserve in sterling securities and later in silver.

(4) 1905-08—Heavy coinage of rupees, and consequent rise in prices and

(5) Checking of the import of gold.

(6) 1907—Misappropriation of a million of the Gold Reserve for railway construction.

(7) 1907—Mismanagement during the crisis of 1907—failure to give out gold freely and decline of the rupee to 1*s*. 3-11/16*d*.

(8) Loss from hurried sale of securities.

(9) 1908—Release of two crores of rupees.

(10) Excessive sales of council drafts depressing exchange.

(11) Vetoing of the Government of India's proposal to keep the Gold Reserve in liquid gold and not in securities.

(12) 1910—Excessive cash balances transferred to London and lending millions in London.

It was Lord Morely who first took counsel from the London bankers and bullion-dealers who, looking only to their own immediate interests, decided that India *should not be allowed to import any more gold than could possibly be prevented.* This end was secured by the *continuous transfer* to London of all the Government balances—cash and surplus—from India, *over and above* the Secretary of State's requirements. In this game it should be said that the financial advisers of the Secretary of State, who are connected with powerful joint stock banks in London, have not played a commendable part. There is no use of Royal Commissions stating that *city men have not shown any favouritism.* Cæsar's wife must be above suspicion. It is difficult to conceive that a human being could do full justice when he has to discharge *two distinct and conflicting duties* under no

expert control. The Secretary of State is a financial autocrat, who carries on gigantic operations at his sweet will and pleasure unsubjected to any controlling influence. But for the persistent activity of members of the Opposition and the comment and interest the Marconi and Samuel Montagu scandals have excited, the transactions of the India Office, so hotly criticised during the past two or three years, would never have seen the light of day. As a matter of fact, *information was refused* in the House of Commons till the latter part of 1912.

Every transfer of Government money from India to London by excessive sales of Council Bills interferes with the settlement of the balance of indebtedness to India, which should, in usual and normal trade conditions, be adjusted by shipments of sovereigns to India, and diverts the import of gold to London. In other words, the India Office *relieves the European merchants and exchange banks, who have to make remittances to India, of their charge of moving bullion at the expense of the Indian taxpayer*, for the prices realised by the Council Bill sale operations are too low.

The accumulation of excessive cash balances in London is an evil of recent growth. It has attained an abnormal proportion under the administration of Lords Morley and Crewe. While in 1908 (March 31st) the balances held in London amounted to about £4½ millions, in 1909 they amounted to £8 millions, in 1910 to £12¾ millions, in 1911 to £16¾ millions, and in 1912 to £18½ millions. (These figures are exclusive of the Gold Standard

and Paper Currency Reserves.) These sums were lent out to approved borrowers with and *without security* at less than half the current rates of interest in India. In 1909 seven leading London joint stock banks enjoyed the use of £7½ millions as deposits without security, of which more than £4 millions were with the three banks, *whose directors were connected with the India Office* Finance Committee. Since 1908, ten of the principal borrowers have had annual transactions over a million sterling each with the India Office. These loans were regularly *and* continuously *renewed* and the borrowers pocketed the difference between the *rates yielded by the securities lodged by them and the rates at which they obtained loans from the India Office.*

Not content with this the India Office borrowed in 1910, 1911, and 1912 large amounts, while at the same time they lent millions at a lower rate of interest. Here are the figures:—

Cash Balance in hand.	*Yet Borrowed.*
1910 1st April, £12¾ millions.	April £1 million. June £2½ millions. December £1¼ millions.
1911 ,, 16¾ millions.	April £1 million. June £2 millions. December £1½ millions.
1912 ,, 18½ millions.	

Lending at 2 per cent. and borrowing at 3 and 3½ per cent. may be fine finance to some people at Whitehall; but we Indians are unable to see the merit of the transaction from the taxpayers' point of view. When these

operations were conducted, Mr. Abrahams was the head of the financial department. Now Lord Crewe has succeeded Lord Morley and Mr. Abrahams holds another appointment. He has been the *chief witness* of the India Office before the Chamberlain Commission: and it is a significant fact that the Report of the Commission on all important points *is in entire accord with the evidence of* Mr. Abrahams, Sir Felix Schuster and Lord Inchcape.

V.

The Gold Standard Reserve is the fund that has been created to maintain the exchange value of the rupee—a token coin circulating at above its bullion value. The Fowler Committee recommended that the profits of rupee coinage should be kept apart in gold in India as a separate reserve. The purpose of this Reserve is to ensure the convertibility of the rupee in sterling, and as such its proper place is India. This Reserve now amounts to about 23 millions sterling. Its disposition is as follows :—

Securities	£16 millions	In England about 19 millions.
Cash at short notice ...	£1 million	
Gold deposited at the Bank of England	£1 ¾ millions	
Silver	£4 millions	... In India.

The Gold Reserve should be kept apart from other reserves and not intermingled at the option of the India Office arbitrarily. It is a mistake and a political danger to invest the grater part of this Reserve in consols and

colonial securities. In holding the bulk of this Reserve in London, the Government have *gone beyond their province in undertaking to provide gold not only for export, but gold ready delivered at a financial centre six thousand miles away.* The maintenance of the exchange value of the rupee imposes on the Government the obligation of *providing gold in India for export if required.* It does *not extend to anticipating the requirements of the public* by laying down £20 millions *in London in advance.* Though London is the place where the gold may be required, the Government's obligation is discharged once gold is tendered in India for export. To hold about £20 millions of Indian money in London, where it is admitted on all hands that stocks of gold are slender owing to an excessive inflation of credit—and a Committee under the presidency of Lord St. Aldwyn is sitting to increase the gold reserves—is open to objections from two points of view. It, on the one hand, *weakens India's position in* making her dependent upon London for the supply, and, on the other, *encourages excessive credit—spinning in London on the basis of external gold.* The ex-Governor of the Bank of England, Mr. Cole, in his evidence, laid emphasis on this aspect of the problem. He said that had the financial storm-centre been in London instead of in New York in 1907, *those securities might not have been realisable at all, or if at all, it would have been at a great sacrifice with a most prejudicial effect upon the financial world all round.* If the Secretary of State thinks that he could realise the securities when the

next crisis arises in London, he is living in a fool's paradise. If a financial crisis were to arise in London, neither the City magnates nor the British Cabinet would permit the India Office to lay hands even on a single sovereign of the Reserve, although bankruptcy might stare in the face of India in the meantime.

The Chamberlain Commission's recommendation on this point cannot carry weight. Indian opinion is in entire accord with the opinions of Sir James Begbie, Dr. Reed, Mr. Webb, Mr. Dalal and Mr. Pandya.

This Reserve should be held entirely in liquid gold, and in India. To hold a gold reserve in securities and silver is opposed to all canons of sound finance. Every country holds its reserves near at hand and not thousands of miles away.

VI.

On the 31st March 1912, the value of notes in circulation was about £41 millions: and the Constitution of the Paper Currency Reserve was as follows:—

Gold	£21¼ millions.
Silver coin	£10¼ millions.
Securities of the Government of India...	£ 6¾ millions.
Securities of the British Government...	£ 2¾ millions.

This reserve is held against the notes equal to their full value. Securities of the Government of India and England may be held under statute up to about £9½ millions, of which the amount in British securities should not exceed £2¾ millions. The remainder of the reserve

must be held in gold or silver coin or bullion. The Indian paper currency is *purely an Indian concern, issuable and encashable in India.* In recent years a portion of this reserve has been diverted to London. The holding of about £10 millions in London is absolutely unjustifiable: and the reasons alleged will not bear scrutiny. The principal official arguments are: (1) It facilitates the purchase of silver in London (Sir Edward Baker); (2) The India Office can easily interchange the money from the Gold Standard, Currency, and Treasury Funds (Baker); (3) Investments in sterling securities in London are better than investment in rupee paper, as the latter are influenced by causes which might shake public confidence in the Indian Paper Currency (Mr. Harold Baker in the House of Commons, 1912); (4) The money would be readily available to support exchange in case of a diminished demand for rupee currency (Mr. Montagu in the House of Commons); (5) The money is not required in India for the payment of notes, since a sufficient metallic reserve is held in India for that purpose (Mr. Montagu in the House of Commons, 1912).

These arguments are mutually destructive. The wonder is how the House of Commons permits the official spokesmen to put forward such preposterous pleas to defend an indefensible act. It would be interesting to know that this Reserve lying idle in London *was not utilised in 1912 for the purchases of silver*, as they were financed through the agency of Council Bills wastefully sold at below specie point.

The recommendation of the Chamberlain Commission to elasticise the paper currency and lend out of this Reserve to banks is reactionary and fraught with grave danger. As Sir James Meston has said, the Paper Currency Reserve *being a trust fund*, the Government of India are not justified in loaning or using it for any other purpose than convertibility of notes.

The benefits of the Indian paper currency should be entirely confined to India and not shared with London financiers anxious to unload depreciating sterling securities. The portion of this Reserve held in London should be transferred to India and utilised to enhance the value of rupee paper by investments in India.

VII

Council Bills.

There is no necessity now to sell rupees by Council Bills. The practice of selling Council Bills, since the closure of the Indian mints, has become obsolete. The India Office still carry on the weekly sales of Council Bills at the Bank of England *absolutely at the discretion* of the Chairman of the India Office Finance Committee. There is *no agency to control his activities* in this direction and *prevent him from continuing sales even when they are conducted at a loss.* In recent years the India Office has been conducting sales in such a way as to divert as much Treasury money from India as possible to London for the use of the London money market and to delay for as long a period as possible the establishment of a gold currency in India. The only object of the weekly sales of Council Bills was, and should be, the provision in

London out of Indian revenues sums necessary to enable the Secretary of State to meet India's home charges on the best possible terms for India. From 1893 up to date the Secretary of State has been selling Council Bills without any regard to the profit or loss of the transaction. In recent years this evil has assumed alarming proportions.

The abuses of the Council Bills system should be done away with. The sales should be limited to meet the home charges, and should not take place below the specie point. The India Office's *manipulation of these sales and interference* with the foreign exchange, imports of gold, local discounts, and general price levels should be terminated. The Secretary of State has *no business to play the part of exchange banker for the benefit of certain banking and commercial houses* in England or the export trading European community in India, who want to remit money both ways at rates *far cheaper than the cost of moving bullion.* The Secretary of State and his financial advisers are not paid handsome salaries for *transforming the India Office Finance Department into the Chief Eastern Exchange Bank in London.*

The doctrine of assisting trade is absured. Trade will finance itself by moving specie and bullion.

Canada, Australia, and South Africa, like India, are paying every year interest on capital borrowed in London. Their annual debt charge amounts to about £10 millions. They do not remit these funds by means of Council Drafts. Such a proposal would evoke scorn in Sydney

or Ottawa. These Governments arrange for the payment of their home charges through the agency or by means of the drafts of their leading banks. It is high time to come to such an arrangement in India and *do away with the Council Drafts system altogether.* If the system is to be allowed to continue, as Sir James Meston has pointed out, the Secretary of State should refrain from large drawings on Councils when exchange was below 16*d*., and he should not draw money belonging to India to benefit trade and keep it permanently as an investment in London.

VIII

I do not propose to go into the technical matters dealt with by the Report. As I have already remarked, the Report *is reactionary and is in entire accord with the views of the anti-Indian financial interests*. It should be remembered that the Commission was appointed by the Premier more to *evade the embarrassing demand* for a Select Committee to inquire into the Samuel-Montagu silver purchase transactions than to *exhaustively review* Indian finance and currency and place the Indian system on an automatic and stable basis. Questions vitally affecting Indian currency, such as the Railway policy, the Debt management, the Home Charges, were not dealt with by this Commission.

It is a matter for satisfaction that Sir James Meston, Sir Guy Fleetwood Wilson, Dr. Reed, Mr. Dalal, Mr. Webb and Mr. Pandya are almost unanimous in their views. Their evidence is opposed to

that of Mr. Abrahams, Sir Felix Schuster and Lord Inchcape. Mr. Keynes seems to have dominated the Commission, and he holds the view that the gold exchange standard marks an advanced stage in monetary evolution. I am not aware of any economist of repute who holds that view. Be that as it may, the Indian currency system *should not be tampered with to suit the whims of an armchair doctrinaire.* Eminent financiers, who have no axe to grind, like Lords Roths child, Avebury, and Swaythling, and distinguished economists, * British, Continental and American, are unanimous in holding that a gold standard without a gold currency is an anomaly.

From Sir Guy Fleetwood Wilson's evidence we learn that the Finance Committee of the India Office is not absolutely necessary. I quite agree with the ex-finance minister. If that Committee *is abolished* with the India Council, as the Indian National Congress is demanding, the *stumbling-block to Indian currency and financial reform would disappear.*

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* *E. g.*, Profs. Nicholson, Gide, Bastable, Seligman, Pierson, Sir Robert Griffen, and others.

CHAPTER VII.

THE RECENT BANK FAILURES AND BANKING LEGISLATION.

THE recent bank failures in the Punjab and Bombay have brought home to us the supreme necessity of a *strong and powerful central institution to come to the help of other banks in a time of crisis, and to exercise an effective control over the money market generally.* Many of our hostile critics call for stringent banking legislation and are eloquent over the debacle of mushroom banks. Not content with this, they are attempting to use the failures as a device to bring indigenous institutions into contempt, and they ridicule Swadeshi banking enterprises. Every country has to pass through the initial period in the development of its banking, and banking crisis are not peculiar to India. While it should be admitted that there have been many regrettable and pernicious activities connected with the banks that have suspended payment, it would be folly to *magnify our shortcomings*, and represent European institutions in glowing colours as something immaculate and superior.

The path of Indian Bank failure is strewn with the wreckage of European-manned institutions. The Bank of Bombay participated in the wild speculation of the share mania of the sixties, with the result that in 1868 it went into liquidation. In 1906 the Arbuthnot Bank failed; one partner committed suicide, and another, who had been knighted for his 'public services' was sentenced to imprisonment. In April, 1913, three European officials of the Bank of Burma were sentenced to rigorous imprisonment for cheating, two for two years and the other for eighteen months.

The debate that took place in the Viceroy's Legislative Council on February 25 was instructive. Sir Gangadhar Chitnavis moved a resolution for the appointment of a committee of inquiry into Bank failures. Sir Fazulbhoy Currimbhoy opposed the resolution and remarked that while it is common knowledge that the transactions of some of the bankrupt banks amounted to gross fraud, it should be remembered that the recent bank smashes were hastened by, if not largely due to a sudden run upon them by the depositors. He added that restrictive legislation, beyond the provision for periodical audit of accounts by Government officials, is calculated to do more harm than good to the cause of Indian Banking. Sir Ibrahim Rahimtullah—a Bombay merchant—the president of the last session of the Indian Muslim League, pointed out that the smaller Swadeshi Banks meet with strong competition in their borrowings from the Presidency and Exchange Banks.

Indian Banks are working under unfavourable conditions. The Presidency Banks are institutions enjoying the use of immense Government deposits, and are run by the European commercial community, *mostly if not exclusively, in their own interests.* Their prosperous working is to a great extent due to the prestige of Government connection, and to a mistaken notion on the part of many persons that the State is responsible for their solvency. It is this that attracts crores of deposits from private persons, in preference to equally safe and strong indigenous banks. Any very stringent regulations, if instituted in response to interested cries from hostile quarters, would stifle indigenous enterprise in the country. As Lord Willingdon said some time back, Swadeshi banking must be encouraged, and no stringent legislation should be enacted.

The Indian Banking System.

The Indian Banking system may be said to comprise: (i) the Presidency Banks; (ii) the European Exchange Banks; (iii) the Indian Joint-Stock Banks; (iv) Private Indian banking firms, some of them of large means and connections; and money-lenders like the shroffs, marwaris, seths, chetties, banias, mahajans, etc. These constitute the Indian Banking Machinery.

(i) *The Presidency Banks.*

There are three Presidency Banks—the Bank of Bengal, the Bank of Bombay, and the Bank of Madras, with capitals of about two crores, one crore, and 75 lakhs of rupees respectively. Their reserves are about equal

to their respective capitals, and their shares, fully-paid-up, stand at or over three times their face-value. *The greater part of their capital is held by European shareholders.* The operations of the Banks of Bombay and Madras are confined to their respective presidencies (the Bank of Madras has a branch in Ceylon). The Bank of Bengal's filed of work covers the rest of India. The total number of branches of the three amounts to thirty-five.

In their Head Offices and branches, the Government keeps large Cash Balances. The relations between the Presidency Banks and the Government, in respect of the holding of balance and doing Government work, are partly regulated by agreements with the Banks and partly by the Presidency Bank Acts. The agreements provide that the Banks are to transact general business for the Government at the Head Offices and certain branches; that they are to receive specified remuneration; that the Government *is not bound to retain at the Banks any particular sum*; but that if its balance at the Head Office of any of the three Banks falls on any day below a specified minimum, it is to pay to the Bank interest at the lowest rate chargeable to the public for loans recoverable on demand. Wherever a new branch is opened, the Government *guarantees a minimum balance for a number of years free of interest.*

The remuneration of the three Banks and the minimum balances that they are to hold for the Government without charging interest are as follows:

		Remuneration per annum.	Amount of Balance below which interest becomes payable.
		£	£
Bank of Bengal	...	2,900	233,300
Bank of Madras	...	800	120,000
Bank of Bombay	...	800	133,000

In practice, the Government keep at these Banks *larger amounts*, and are *more liberal to them* than is provided for in the agreement:

			£
Bank of Bengal	...	...	467,000 to 533,000
Bank of Madras	...	...	133,000 and over
Bank of Bombay	...	...	267,000 to 333,000

On the flotation of loans and in many other cases, the amounts are increased. On more than one occasion the Banks *were not in a position to meet the withdrawal* of the Government deposits. While in every other country where a Central Bank acts as the Government banker, the Government often gets accommodation from them; here the Government *has to provide large sums for the Presidency Banks to swell their business and enable them to declare dividends of 12 per cent. and upwards.* It will now be evident that the *advantages are all on the side of the Presidency Banks, and they have the best of the bargain, with large sums of the tax-payers' money at their disposal free of interest.*

These Banks are *sectarian institutions*, and Government should not keep accounts with sectarian banks. Their Directorates, except in Bombay, are exclusively European, and their interests are those of the European Chambers of Commerce. Their Directors are practically

left to pass the accounts submitted by themselves, to re-elect themselves or successors, and appoint auditors of their own choice. Thus they ***are responsible to none but themselves***, while effective supervision by the Government is non-existent.

These Banks are debarred by law from raising money in the English market, and their chief business, apart from the Government work, is financing the internal trade of the country.

The revision of the agreements between these Banks and the Government is now under the consideration of the Government of India. Indian leaders would do well to take time by the forelook, and *agitate for a reform of this system which gives them the monopoly* of the Government business. It is time we realised that this *enormous subsidy* the Presidency Banks enjoy *is a stumbling block in the way of the progress of Indian Swadeshi Banks.*

The following table shows the extent of the business of the Presidency Banks at the end of December 1912.

	Bank of Bengal	Bank of Madras	Bank of Bombay
	£	£	£
Paid-up Capital ...	1,333,333	500,000	665,667
Reserve ...	1,220,000	466,667	706,667
Public Deposits ...	1,321,069	504,838	698,952
Other Deposits ...	11,069,588	4,956,050	7,462,175

(ii) *The English and Foreign Exchange Banks.*

The English and Foreign Exchange Banks conduct the external exchange business of the country, and they also do a considerable local business in places where they have offices. These Banks, which finance India's foreign trade, are: Chartered Bank of India, Australia and China; Delhi and London Bank, Hongkong and Shanghai Banking Corporation; National Bank of India; Mercantile Bank of India; Eastern Bank; Comptoir National d'Escompte de Paris; Yokohama Specie Bank; Deutsch-Asiatiche Bank; International Banking Corporation; and Russo-Asiatic Bank. These are all banks with head offices out of India; the cash they hold in India is of very limited amount and represents only a small fraction of their liabilities to private depositors in India. These Banks *enjoy Government patronage in many ways.*

Several Colonial and London Banks have also been enjoying for years the use of large amounts in London at a rate of interest less than half of the Indian Bank rate. It is enough to point out the *favoured treatment* given to these Exchange Banks, by giving them loans at less than half the Indian Bank rate. No wonder that the European Banks *are thriving* and many Indian Swadeshi Banks *have collapsed.*

(iii) *The Indian Joint-Stock Banks.*

The total number of Joint-Stock Companies registered as engaged in banking and loan operations in

British India and Mysore on the 31st March, 1912, was 491, with a total paid-up capital of £5,246,000. The majority of these companies are societies with comparatively small capital. Nearly half of them are in Madras. The following tables * indicate the progress of banking capital in India in recent years. Banks of deposit, which though doing business on western lines, do not possess a minimum of £ 33,000 of paid up capital and reserve fund combined, are left out of account, as also are the numerous small money-lending and pawn-broking establishments registered annually as 'banks' under the Indian Companies Act.

The recent Bank failures commenced with the suspension of the People's Bank of Lahore on the 20th September, 1913, and ended on the 29th November, 1913, with the collapse of the Indian Specie Bank of Bombay. *Thirteen Banks in all failed during the period of six weeks.*

The Indian Specie Bank, under the management of the late Mr. Chunilal Saraya, cooked the accounts, it is said, without the knowledge of the Directors, and speculated extensively in silver. But in spite of what may be said about Mr. Saraya's gambling operations in silver and misapplication of funds, it should be said to his credit that he did not use a pie of the Bank's deposits to enrich himself. The liquidation proceedings brought to light the interesting fact that more than two crores worth of silver were held in London by the Bank. But for the in-

* See page 119.

tervention of Messrs. Samuel Montagu & Co.,* and their unprofitable purchase of silver for the India Office a—*transaction that has cost India dear*—the Indian Specie Bank would not have failed, for as a matter of fact, the late Mr. Saraya offered in January, 1912, *silver* to the Government of India *at a little over 26d. per ounce. If this offer had been accepted, India would have gained largely and a banking crisis would have been averted.*

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* The impropriety of this transaction has been delt with see page 31.

*Three Presidency Banks and (in 1911) 18 Joint-Stock Banks whose Head Offices are located in India.

Year	Capital	Reserve and Rest	Deposits				Cash Balances at Head Offices and Branches
			Presidency Banks		Other Banks	Total	
			Public	Private			
	£	£	£	£	£	£	£
1901	3.003,745	1,760,827	2,266,959	9,757,846	6,000,945	18,025,750	5,471,214
1906	3,292,935	2,241,669	2,052,348	18,300,559	7,703,268	28,056,175	8,297,179
1911	4,304,005	3,112,929	2,921,992	22,799,926	16,860,737	42,582,654	11,468,327

Exchange Banks whose Head Offices are not located in India.

Year	Capital	Reserve and Rest	Deposits		Cash Balance at Head Offices and Branches.	
			Out of India	In India	Out of India	In India
	£	£	£	£	£	£
1901	11,655,599	4,172,101	57,818,643	7,887,355	11,882,315	2,237,993
1906	15,866,592	8,421,339	104,456,710	12.058,216	18,435,610	3,403,919
1911	22,600,058	13,001,566	157,764,440	18,779,316	22,136,195	3,046,101

CHAPTER VIII.

THE INDIAN PUBLIC DEBT AND THE RAILWAY PROGRAMME.

India never is but always to be blest. This is the burden of the plaintive lament of Sir William Meyers financial statement. The new finance member said in presenting his financial statement: "I hope that in judging my administration it will not be reckoned to my personal demerits, or put down to sins committed in a previous existence, that I have failed to maintain, the persistent grasp of good fortune which marked most of Sir Guy Fleetwood Wilson's career in India." In spite of this, Sir William has committed the country to a heavy railway programme of £12 millions a year. British capitalist *and industrial interests clamour for big railway programme*, and they exercise a predominant influence in the Secretary of State's dictation of financial policy, especially relating to railways. It is the excessive railway expenditure and inflated army charges that block the way of educational and sanitary progress. The paramount cultural needs of the country loudly call for a *radical change* in the policy of Government in regard to heavy capital outlay on Railways and *increase of the Public*

Debt, especially, the sterling obligations incurred in London.

In order to realise the financial position of India in relation to her resources in the proper prespective, it is necessary to have a clear grasp of the Public Debt, its genesis and management.

On the 31st March, 1912, the debt of India amounted to about £276 millions; consisting of a rupee debt of about £93 millions and sterling debt of about £183 millions. The total debt is divided into Public Works Debt and Ordinary Debt. The amount entered under the former head is the equivalent of the total capital expenditure incurred by the State on public works, together with the amount advanced to railway companies for capital expenditure. The remainder of the Debt is the Ordinary Debt.

A big item in the Home Charges of the Government of India which annually amount to £19 millions, is that relating to interest and management of debt and payment of interest and annuities on account of railways and irrigation works, amounting to nearly £11 millions.

The history of the Indian Debt is a *dismal record of financial extravagance and injustice.* If India had been relieved of Home Charges from the commencement of British rule— as the colonies,—India would have had *no public debt* when she was transferred from the Company to the Crown.

The total Indian Debt bearing interest was little over 7 millions sterling in 1792 and had risen to 10 millions in 1799. On account of the Mysore and Maharatta wars of Lord Wellesley that followed, it rose to 21 millions in 1805, and stood at 27 millions in 1807. Though it increased to 30 millions in 1829, Lord William Bentinck ably and carefully managed India's finances with the result that in 1836 he brought it down to about £27 millions.

The Afghan War of Lord Auckland left its impress on the country's finances and the debt rose in 1844-5 to £43½ millions. The East India Company *vehemently protested* against the expenses of the Afghan War being thrown on the finances of India. Many members of the House of Commons agreed with John Bright when he said: "Last year I referred to the enormous expense of the Afghan War—about 15 millions sterling—the whole of which *ought to have been thrown on the taxation of the people of Engand*, because it was a war *commanded by the* English cabinet, for objects supposed to be English."*

The annexation of Sindh by Lord Ellenborough, the Sikh Wars of Lords Hardinge and Dalhousie, augmented the Debt to £59½ millions in the last year of Dalhousie's administration. The Mutiny of 1857, raised it in one year by 10 millions, so that on April 30, 1858, the total Debt of India stood at 69½ millions sterling.

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* John Brights' speech made on August 1, 1859.

John Bright spoke frankly and fearlessly on the mutiny expenditure. "I think," he said, "that the 40 millions which the revolt will cost is a grievous burden to place upon the people of India. It has come from *the mismanagement* of the Parliament and the people of England. If every man had what was just, he had no doubt that 40 millions would have to be paid out of the taxes levied upon the people of this country."†

A popular error prevails in England that the *whole* of the Indian Debt arose out of the capital spent by England for the conquest and administration of India and for the development of her resources. These facts clearly show that that *was not the genesis* of the Indian Debt up to 1858.

India had paid for her conquest and administration: also for the frequent wars of annexation and conquest in India.

When the East India Company ceased to be the rulers of India, they had piled up an Indian Debt of 70 millions sterling. The Act for the better government of India of 1858 provided for the direct administration of India by the Crown. The financial clauses of this Act added the entire capital stock and the debts of the East India Company to the Public Debt of India: and the *annual tribute* so long paid as interest on the stock was made a *perpetual burden.* The Crown purchased the

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† John Bright's speech on East India Loan, March 1859.

Empire of India from the Company; *the people of India had to pay, and are still paying the purchase money.* The value received by the shareholders of the Company's stock was added to the Indian Debt, but the Crown which won an imperial property *did not pay* even a shilling. This act of injustice towards a dependency after saddling her with an additional expenditure of forty millions sterling is unexampled in the colonial history of a modern empire. *When the Philippines were acquired by the Americans the former where not saddled with the purchase money. Nor was it the case when Japan annexed Formosa and Korea and Germany Alsace and Loraine.* Great Britain herself on numerous occasions has borne the *entire cost* of colonial expenditure and the administration of dependencies. When in 1900, the British Government took over Nigeria from a company, it paid the purchase money. The South African War cost England more than £200 millions. *Not a penny of this huge debt was thrown on the revenues of South Africa.* The Boer States enjoy the use of Imperial troops, a charge on the Imperial exchequer.

As the Company's debt and the cost of suppressing the mutiny were thrown on India, her public debt in 1860 rose to over a hundred millions sterling, while in 1857 it was 60 millions. The Government abandoned in 1869 the guarantee system of railways and began to borrow capital for reckless railway construction: and the Debt rose rapidly from 1870. A Select Committee on Indian Finance in 1870 revised the figures so as to

include some obligations not previously exhibited, and this arrangement was followed in subsequent years. At the close of 1876-7 the total Debt was £139 millions. This includes the sums borrowed and spent by the Government on State Railways and irrigation works, but does not include the money spent by private companies under guarantee of interest from the Indian revenues nor the East India Stock of twelve millions sterling, forming the capital of the Company on which India still paid interest. In nineteen years, (1859-1877) the Crown doubled the Debt, bringing it up to 139 millions—not including the East India Stock.

We hear so much of international arbitration and peace tribunals in these days. If the Hague tribunal, for instance, deals with this Indian debt question up to 1877, when Queen Victoria assumed the title of Empress of India, it would make a *clean sweep of the East India Company's debt of* 70 *millions and transfer to the English Treasury the mutiny debt of* 40 *millions.* If this had been done in 1877—as it ought to have been done out of equity and justice, the sole guiding factors—a hundred millions of the so-called Public Debt of India would thus have been struck off, and the balance would have been extinguished from the revenues of India, once free from the payment of interest of this enormous and unjust liability. As R. C. Dutt remarks, there would have been *no National Debt*; for there neeed be no National Debt. This is the burden of the veteran

Dadabhai Naoroji's monumental work "Poverty and Un-British Rule in India."

The position of India is different from that of modern aggressive states which are encumbered with National Debts resulting from their conquests and imperialistic ventures. *There was no such thing as a National Debt Institution when India was ruled by Hindu and Moslem sovereigns*, though they occasionally borrowed many from bankers on their own credit. Modern European nations pile up National Debts primarily to extend their conquests and colonies and to maintain their position, naval and military, among rivals. India needs no conquests. She has no rivals in Asia : nor is she given a free hand in framing her financial polcy. This being so it is all the more necessary to desist from further augmenting an already swollen public debt. But this is not yet to be, as the Government is merrily going on borrowing huge sums with a light heart, and we have been committed this year—with famine conditions prevailing in upper India—to a railway programme of £12 millions sterling.

Lord Lawrence endeavoured to meet all expenditure from the annual income. It was Lord Mayo who inaugurated the policy of constructing public works with borrowed capital. Alarmed at the growth of Indian Debt and expenditure, Gladstone moved for a Select Committee on Indian Finance in 1871, and appointed Mr. Henry Fawcett as one of the members. No recommendations or remedial measures ensued though the committe sat for

four years. It was discontinued in 1874 when the Liberal Government was upset. But it recorded valuable evidence. Mr. Massey and Sir Charles Treveleyan, ex-finance minister of India, protested against the increase of taxation and debt burdens.

The real weakness in the machinery of the Indian Government is well brought out in the evidence of Lord Salisbury, who was Secretary of State for India in 1874.

"Henry Fawcett :—Then it comes to this simply, that throughout the existence of an administration, the Secretary of State for India *is aware* that India is being unjustly charged : that he protests and protests, again and again ; that the thing goes on, and apparently no remedy can be obtained for India unless the Secretary of State is prepared to take up this line and say "*I will not submit to it any longer* : *I will resign* ?"

"Lord Salisbury :—It is hardly so strong, as that, because the Secretary of State, if his Council goes with him, can always pass a resolution that such and such a payment is not to be made ; but of course any Minister shrinks from such a course, *because it stops the machine.*

"Henry Fawcett :—You have three alternatives : you must either stop the machine, or you must resign, or you must go on tacitly submitting to what you consider to be an injustice.

"Lord Salisbury—Well I should accept that statement, barring the word 'tacitly.' I should go on *submitting with loud remonstrances.*" (Report of 1874).

The cry from England is always for fresh lines of railways and fresh expenditure and capital outlay in

India. Apart from these, *other burdens have been thrown on the Indian finances* such as the cost of the Chinese War and of the Abyssinian War, the cost of telegraph lines and military charges properly payable from English estimates. There *is no effective resistance to financial injustice towards India. The system of taxation without representation has failed in India as in every civilised country.* John Stuart Mill recognised this clearly and objected to the Act of 1858 making the Secretary of Sate a financial autocrat, with a dependent Council, powerless for good, a Cave of Adallum for reactionaries. Lord Morley quoted Mill and Bright, in his Indian speeches, but curiously enough made no reference to nor learnt any lesson from *their trenchant remarks on India's financial position and management.* The Reformed Councils of Lord Morley are *merely advisory bodies*: working under *double and triple vetoes* with official majorities, and *have no voice in taxation, expenditure and financial policy.*

The East India Company, with all its faults, managed to keep down the Home Charges as *low* as possible. Under their administration it was a little over *one tenth of the annual revenues of India.* It is under the Crown that India's Home charges have increased, *absolutely and relatively* to the revenues, the Crown Government being irresponsible. Fiftyfive years of Crown Government (1858-1913) bear ample testimony to the opinion of John Stuart Mill, that the administration of India through a Secretary of State and his Council " *would be the most*

complete despotism that could possibly exist under British Rule."

The spirited forward policy of Beaconsfield and Lytton brought about the Afghan War and as a result £20 millions were added to the Indian Public Debt. Lord Beaconsfield frankly stated the real cause of the war. In a speech at the Mansion House (November 9, 1878), he said that it was not undertaken to punish the Amir of Afghanistan for his reception of the Russian Mission at Kabul--as the Indian Government declared--but for a rectification of boundary and for securing a scientific frontier. Though the Prime Minister of the day openly declared that the war was undertaken, not for the safety of the Indian frontier as is alleged by Anglo-Indian historians, but *for Imperial purposes*, the cost of the war was thrown on the Indian finances.

In 1901-02, the total Debt was about £227 millions. No effort has been made to reduce the Debt and create a sinking fund. Another dismal feature of Crown Government has been to enhance the Public Debt of India held in England as the following table shows :—

Year.	Indian Debt.	Debt in England.	Total.
	£	£	£
1839-40	32,750,697	1,734,300	34,484,997
1857-58	60,704,084	8,769,400	69,473,484
1860-61	71,901,081	29,976,000	101,877,081
1876-77	83,537,992	55,397,033	138,935,025
1889-90		98 millions	
1890-91	78,416,801	104,408,208	182,825,009
1901-02	91,925,015	134,307,090	226,232,105

Year.	In India	Permanent Debt In England	Total
	Rs.	£	£
31st March 1902	116,19,13,833	130,307,090	207,768,012
,, ,, 1907	130,45,50,655	147,518,634	234,488,677
,, ,, 1911	138,09,72,155	177,998,335	270,063,145
,, ,, 1912	139,96,36,205	178,486,597	271,795,677

The bulk of the Indian debt (including the whole of the sterling debt) *is held by Europeans*—that is to say the interest charge annually amounting to millions is drawn by foreigners. In every country, the National Debt is held by *the children of the soil, not outsiders.* In 1911, the estimated percentage of the rupee debt, held by Indians, was about 47.

The growth of the sterling debt—apart from other disadvantages—*is primarily responsible for the exchange muddle.*. The Fowler Currency Committee of 1898, emphatically protested against the increase of expenditure and growth of sterling obligations:—"The Government of India should husband the resources at their command, exercise a resolute economy and *restrict the growth of their gold obligations.*" In deliberate defiance of this pronouncement, as I have shewn in the above table, the Government of India between 1902-12 have increased the sterling portion of the Indian Public Debt by nearly £50 millions.

Eight years of Liberal Imperialism, under Lords Morley and Crewe—notwithstanding the "Reforms"—

have set *a more rapid pace* in the growth of the Public Debt. On the whole, the Conservatives have managed the finances of India with greater advantage to her than the Liberals. The closing of the Indian mints to the free coinage of silver in 1892-3 *was accomplished by a Liberal administration*—a change the Conservative Government had condemned twice in 1878 and in 1886. Lords Morley and Crewe have thrown out millions of Cash Balances into the London market with and without security at a *give away rate of interest* with a lavish prodigality at the expense of the Indian taxpayer, an innovation no Conservative Secretary of State would have sanctioned. The Delhi expenditure, and the 12 millions railway programme, should make Indian politicians pause before *uttering extravagant encomiums on Liberal ministers and their policies.* Even the much-maligned Lord Curzon *did not undertake to carry out* an annual 12 millions railway programme.

The Indian Government has let slip more than one opportunity of reforming the finances on favourable terms. Some seventeen years ago, when money was to be had in London at 2 per cent, all the Railways could have been bought without the payment of any annuities—by *the issue of a consolidated loan* spread over a number of years at a *saving of £2 to 3 millions annually* in Interest Charges.

The Government of India loans of recent years have lowered the credit of India; for they have been *underwritten,* their rate of interest has been raised and their

figure of issue lowered. In spite of these boons to the London investors, neither the loan of January 1910, nor the bulk of the guaranteed Railway issues during the past five years were fully taken up by the public. It is high time to reconsider ways and means: abolish *the guarantee and profit sharing* arrangements and *overhaul the system* of the Public Debt management. The $3\frac{1}{2}$ per cent. loan for $2\frac{1}{2}$ millions sterling (of June 1910) was issued at 92. Even the railway companies complain that the India Office does not permit them to choose their own time and issue a straight forward loan *without* a guarantee at or near par.

Port Trust loans have been successfully floated in India when they had failed in London. No *kind of guarantee, direct or indirect, should find a place* in the Budget of India. Perpetual borrowing should be put an end to. No huge railway programme should any longer be tolerated. Further sterling obligations *should cease*: Every endeavour should be made to popularise the rupee paper and necessary loans should be floated in India.

The loan of March, 1911, was underwritten, interest $3\frac{1}{2}$ per cent. and issue price 96. The policy *of proceeding piecemeal, working in secrecy, petty and costly method of work, failure to grasp situations, disregard of market conditions, lack of a comprehensive plan, the strange conceit that wisdom begins and ends with those in Office: the amateur experiments of the High Priests of*

Simla and Whitehall—who contradict one another :—and above all, the want of effective control over the India Office, has cost India dear by throwing millions on her finances—a recurring burden on the Indian taxpayer.

The following extracts reproduced from the evidence of Mr. Alfred Clayton Cole—till recently Governor of the Bank of England—before the Indian Finance Commission of 1913, throw a flood of light on the wanderings of the India Office in the financial wonderland :—

"A. 3359. I do not know *what the India Bills* which were in the market for a considerable time, *were raised for* ; but they were raised ; and I should have said they might have been *paid off earlier* than they were paid off."

"A. 3363. I should say that to *take a security at par value* when it may be 10 per cent. below par is *bad finance.* Personally this is the *first time* I have ever known such a thing was done."

"A. 3365. We at the Bank have *never accepted* Colonial Government Securities as floaters. But the India Office *are taking them.*"

"A. 3368. The fact that it is known that India will continue to borrow annually does naturally tend to *keep down the quotations* for her loans in the London market. I would like to add that if India at any time requires money on a large scale, she would probably have to issue a loan *with a fixed date for redemption.*"

"A. 3371. All the Colonial loans have a fixed date for redemption. *Indian Securities have gone down more than Colonial Securities.*"

"A. 3521. *Had the financial storm centre been in London, these securities might not have been realisable at all, or if at all it would have been at a great sacrifice with most prejudicial effect upon the financial world all round.**

Lord Cromer speaking before the Welby Commission, said that it would be a good thing to have an independent and impartial Court of Arbitration, like the Judicial Committee of the Privy Council, to go into the question of the financial management of India and decide whenever a conflict of interest arises."

It is a matter of prime importance that the finances of India should be put on a *more equitable and solvent basis* before real reform of any kind could be achieved on an adequate scale.

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* [Cd. 7069] Minutes of Evidence taken before the Indian Finance Commission, 1913, Vol. I.

CHAPTER IX.

A STATE BANK FOR INDIA.

I.—Introductory.

Mr. Montagu, the Under Secretary of State for India, in the course of his last Budget Speech in the House of Commons (August 7, 1913) made the following observations on the State Bank project:—

"He was precluded from dealing with many things in the financial world, because they were now engaged, with the assistance of a strongly manned Royal Commission, under the presidency of Mr. Austen Chamberlain, in exploring the system of finance with a view to seeing if a system which had not been revised for many years and which had been partly inherited from our predecessors, the old East India Company, could not be improved. Although it was one of the matters which was being investigated there was one fact he wished to mention. From time to time proposals had been put forward, and had, in theory at any rate found acceptance both here and in India for the establishment of a State Bank. Such a bank would relieve the India Office of a very large amount of commercial and financial work which it proposed, and would perhaps find a solution of many of the difficulties which critics had from time to time pointed out. The Secretary of State was of opinion that the time had now come for the reconsideration of the proposals for the establishment of a State bank which would act as custodian for a large part of the Government Balances, manage, the paper currency, and take part in the sale of drafts on India, or meeting the Secretary of State's requirements. The subjects had been discussed in a Memorandum prepared by the

Assistant Under-Secretary of the India Office (Mr. Lionel Abrahams), and the Secretary of State, without committing himself in any way upon the subject, had directed that Mr. Abrahams should present his memorandum for the consideration of the Royal Commission, and he would welcome the consideration of the Royal Commission, as he held the view that it clearly came within its terms of reference."

It should be remembered that a scheme for the establishment of a Central Bank of India was discussed from 1899 to 1901 in correspondence between the Secretary of State and the Government of India.

The Indian Currency Committee of 1898-99 presided over by Sir Henry Fowler, was told by several witnesses that the *banking resources of India had not kept pace with the growing requirements of the country*, and that the *establishment of the gold standard by* making sovereigns and half sovereigns legal tender *should be accompanied by the creation of a central bank.*

Sir Everard Hambro, in a separate note appended to the Report of that Committee, drew attention to the fact that it has been considered wise in Europe to entrust the carrying out of currency laws to banks established or strengthened for that purpose. Such a bank could carry out currency regulations in a more effective way and in a manner more in harmony with the trade wants of the country than any Government department, however well administered. He therefore advocated the establishment of 'some institution having ample facilities at its disposal, and framed on somewhat similar lines, to those of either the Bank of England or to the Bank of France.'

In presenting the Indian Budget to the House of Commons in August 1899, Lord George Hamilton the

then Secretary of State associated himself with Mr. Hambro's recommendation, and said that the export trade of India was being financed on too narrow a cash basis. Lord Curzon's Government in replying to Lord George Hamilton's Despatch took up the project with zest and observed that for the purpose of *effective maintenance of the gold standard* such a bank, with a large sterling capital, would be a very powerful support to the State.

When Sir Clinton Dawkins, as soon as he had introduced his first Budget, left India to accept the tempting offer of a partnership by the American multi-millionaire, the late Pierpont Morgan, the project did not receive the ardent support of Sir Edward Law, his successor. The discussion came to an end as is shown in the following extract from a Despatch from the Secretary of State to the Government of India dated 26th July 1901:—

"You have come reluctantly to the conclusion that the circumstances are unfavourable to the policy of pressing on the centralisation scheme at the present time. This opinion I consider myself bound to accept; but I agree with your Excellency that it will be distinctly advisable, as soon as may be practicable, to establish a Central Bank in India, for the reasons given in your letter and in Sir Edward Law's able minute; and I request that this object may be kept in view, and that the scheme may be revived whenever there is a possibility of its being successfully carried out."

As Lord Crewe has authorised Mr. Lionel Abrahams of the India office to draw up a scheme as he is satisfied that further consideration at the present time of a State Bank is very desirable, it is of the utmost importance that this question should be well discussed from the Indian point of view. In this article I propose to deal with the schemes of Mr. Alfred De Rothschild, Sir Edward Holden,

and Mr. Lionel Abrahams: to examine the grounds upon which the amalgamation of the Presidency Banks is advocated: and enumerate the conditions a strong, national State Bank, should fulfil if it is serve solely Indian interests and command the confidence of the Indian public.

II. Rival Schemes.

Mr. Rothschild's Scheme.

Mr. Alfred De Rothschild outlined a scheme in his statement as follows:—

Central Bank to be formed with a capital of £14,000,00 (to be held partly in gold and partly in securities) and power to *issue notes against the whole of it.* If possible the Presidency Banks to be fused with the Central Bank. The latter to hold Government balances: to have the right to import silver for coinage free of duty, and to share in profits of coinage: to take no part in exchange business, but to *confine itself to internal operations and lending to the Government on deficiency bills*: to take such precautions for *protecting its gold* as are taken by the Banks of France and Germany. In the event of the Central Bank's supply of gold running short, the Government to 'come to the rescue to the extent of £10,000,000 sterling.'

Hambro's Note.

Sir Everard Hambro in his note mentions two quite different services to be rendered by the bank, viz.:—(1) To assist in giving effect to any regulations having the *convertibility of the rupee* in view, and (2) to *expand the*

banking facilities of India in time of pressure and to curtail them in time of slackness.

Mr. Alfred De Rothschild mentions the following as the principal amongst the multifarious advantages of such a bank.

1. A large sum of gold would be immediately provided.

2. This sum would be found by private enterprise and without recourse to a Government loan thus avoiding a further heavy permanent charge upon the revenues of the country.

3. By the establishment of the Bank, the machinery would at once be provided for the *maintenance of a gold currency* and for the conduct of operations connected therewith, which can be far better carried out by an institution of this description than by a governmental department, especially as regards the *gradual accumulation of a further stock of gold.*

4. The maintenance of a *steady rate of discount.* Money could never be dear in the principal centres of India for more than a few hours, namely, the time occupied in the exchange of telegrams, because, if a million sterling were paid into the Bank of England (presuming the latter to be the agents of the Bank of India, which no doubt would be the case), the bank of India on being telegraphically advised, would at once have a right to issue £1,000,000 in notes, or to give out *gold certificates* pending the arrival of the bullion itself. I am aware that telegraphic transfers of this kind can now be made through the agency of the Government: but *without convertibility it is not certain that the money could be had back when required.*

The establishment of the Bank would tend to create confidence in the public mind as to the *security and permanence of the currency system*, and would consequently be effectively instrumental in directing to India the flow of capital which is so desirable for the increase of her prosperity.*

Sir Edward Holden's Idea.

Sir Edward Holden, in his speech from the chair, at the annual general meeting of the London City and Midland Bank, on 24th January 1913 said:—

"We are now experiencing the inflow of gold to India, but we have before us the more difficult problem of how the gold is to be made

* C—9222. Minutes of Evidence of the Indian Currency Committee of 1898, Part II.—Page 186.

to flow out from India. Some believe that an outflow can never be brought about on economic lines unless *money be made cheaper in India than at present.* While money rules for a certain period of the year upto 8 per cent. in India, we cannot expect the bank rate in London to be effective in attracting gold from India in the same way as from other countries. If a Bank, similar to the Bank of France, were established in India with *mumerous branches in different parts of the country*, and followed up by a greater development of sound banking institutions, then credit would be created by means of loans, discounting and borrowing facilities would be increased, 8 *per cent. bank rates would disappear* and a channel would be provided for making the *rates responsive to international monetary conditions.*

The Times, and the Times of India.

The *Times* in an article on "A State Bank for India" of the 14th March 1913 wrote:

"A central institution, with substantial, should be allowed under the supervision of the India Office to have an agency in London to transact ordinary business, especially business connected with the *maintenance of the gold Standard.* Given a State Bank with large capital and plenty of resources, the Government couid keep its headquarter's balances in bank custody without any apprehension of monetary disturbances in consequence of withdrowals, and on the other hand, it would be able to depeud on the Bank to *advance money* if the needs of the State momentarily required the assistance."

The *Times of India* expresses its idea thus :—(11th April 1913).

"If those who advocate the creation of a State Bank would face the situation squarely by concentrating attention on that aspect of the question and by working in the direction of combining within the ambit of the proposed Bank the Paper Currency Department and the gold Standard Reserves as well as the Treasury Balances at home and in India, and the home remittances of Government, more practical results would be likely to ensue than by *endeavours to bring about an amalgamation* of the Presidency Banks."

III.—The Presidency Banks and the Indian Banking System.

I have quoted these extracts to show the diversity of views and vagueness as to the duties that should be entrusted to a State Bank and the advantages to be expected from so entrusting them. As the scheme of Mr. Lionel Abrahams is based on the assumption that a State Bank, if formed at all, will be formed by the amalgamation of the three existing Presidency Banks—the Bank of Bengal, the Bank of Bombay, and the Bank of Madras, it would be more fruitful to review the working of these Banks and the part they play, before offering any remarks on the scheme of their amalgamation.

On the 31st March 1912, the Capital and Reserves of the Presidency Banks were as follows :—

	Bank of Bengal	Bank of Madras	Bank of Bombay	Total
	£	£	£	£
Capital ...	1,333,000	400,000	667,000	2,400,000
Reserve ...	1,200,000	353,000	707,000	2,260,000
Total ...	2,533,000	753,000	1,374,000	4,660,000

The last weekly statements published by the Banks in March 1912, showed the Government balances held by them as follows :—

Bank of Bengal	Bank of Madras	Bank of Bombay	Total
£	£	£	£
1,278,000	708,000	1,142,000	3,128,000

The operations of the Banks of Madras and Bombay are confined to their respective presidencies, and the Bank

of Bengal's field of work covers the rest of India including Burma.

The business of the Presidency Banks is governed by the Presidency Banks Act, No. XI of 1876 as amended by Acts V of 1879, XX of 1899, and I of 1907 passed by the *Governor-General of India in Council.*

The agreements between the Government and these Banks provide that the Presidency Banks are to transact general business for the Government at their Head Offices and certain branches: that they are to receive specified remuneration: that the *Government is not bound to retain at the Banks any particular sum*; but that if its balance at the Head Office of any of the three banks falls on any day below a specified minimum, it is to pay the Bank interest at the lowest rate chargeable on such day by the said Bank to the public for loans recoverable on demand. The remuneration of the three banks and the minimum balances that they are to hold for the Government at their Head Office without charging interest are as follows :—

	Remuneration Per annum	Amount of Balance below which interest becomes payable.
Bank of Bengal	2,900	233,300
Bank of Madras	800	120,000
Bank of Bombay	800	133,000

The revision of these agreements is, as Mr. Abrahams says, now under the consideration of the Government of India.

In actual practice the Government of India is *much more liberal* to the Banks than the agreements provide for. They usually keep at the head offices of the three Banks the following amounts much in excess of the high minimums :—

	£
Bank of Bengal	467,000 to 533,000
Bank of Madras	A little over 133,000
Bank of Bombay	267,000 to 333,000

On the flotation of a loan, and in special cases, the amounts are increased.

At times of great stringency in the Money Market, the Government of India grant loans at interest to the Presidency Banks.

Another form of assistance given by the Government to the Presidency Banks is that as an encouragement to the opening of new branches, a minimum balance at a branch is guaranteed for a number of years.

On 31st March 1913 the Presidency Banks handled Government Cash Balances to the extent shewn below :—

	No.	Amount
Head Offices ofPresidency Banks	3	£ 1,595,400
Branches of Presidency Banks	35	£ 2,156,600

In spite of all these advantages, the Presidency Banks were on many occasions *unable to meet the demands* of the Government: In the decade between 1860 and 1870 the disadvantage of depositing an excessive amount of the

Government balances in Presidency Banks had been illustrated by two cases :

(1) On 9th December 1863, the Bank of Bengal held a Government balance of £2, 968,000 ; and its cash assets consisted only of £1,000,000 (a specified coin reserve against Government deposits) and £998,000 available against the remainder of its liabilities to the Government and its liabilities to private depositors. The Government *found difficulty in withdrawing money* standing to its credit. 'For about eight or ten weeks the anxiety was very serious.' (Sir C. Trevelyan).

(2) The position of the old Bank of Bombay was unsatisfactory from 1863 until its liquidation with a loss of capital of about £1,900,000 in 1868. In 1865 and in 1867 there were large withdrawals by the public. and on each occasion the Government *had to promise assistance to prevent or check panic.*

Similarly in 1874, at a time when the Government had a balance of £1,000,000 at the Bank of Bombay, the Bank *remonstrated against the proposed withdrawal* of £350,000, and the withdrawal was postponed.

This incident was the immediate cause of the establishment of Government Reserve Treasuries at Calcutta in 1876, and at Madras and Bombay in 1879.

The Government deposits bear a high proportion to the Capital and Reserve and the cash of the Presidency Banks. The percentages of Government deposits (a) to

Capital and Reserve and (b) to cash at the dates mentioned in the last three years were as follows :

	Bank of Bengal Percentage of Government Deposits to Capital and Reserve	Cash	Bank of Madras Percentage of Government Deposits to Capital and Reserve	Cash	Bank of Bombay Percentage of Government Deposits to Capital and Reserve	Cash
1910						
March ...	51·9	37·9	54·3	44·6	91·6	56·3
December ...	47	34·5	67·6	39·5	74·2	34·8
1911						
March ...	54·9	36·3	68·9	121·0	84·9	46·5
December ...	60·4	28·9	53·5	35·5	52·4	23.3
1912						
March ...	50·5	29	93·8	57	83	35·8
December ...	51·7	29·1	52·4	38·6	51	31·3

These banks have not like most of the Great English Joint Stock Banks or some Indian Joint Stock Banks uncalled capital. This and the high percentages shown above are strong arguments against a large increase in the amount of Government money deposited with the Presidency Banks.

The Presidency Banks, the English and Foreign Exchange Banks, Indian Joint Stock Banks, and private Indian banking firms and agencies constitute the banking machinery of India.

The Presidency Banks, as has already been shown, confine their activities to Government business, local trade, and their foreign banking business owing to charter restrictions is a negligible quantity.

These Banks, literally subsidised by the State, clamour for more money to be placed at their disposal and access to the London Market.

The Foreign Exchange Banks.

The English and foreign Exchange Banks, conduct the external exchange business of the country and also do local business in places were they have offices.

These banks which play an important part in financing India's foreign trade are :—Chartered Bank of India, Australia and China, Delhi and London Bank, Hongkong and Shanghai Banking Corporation, National Bank of India, Mercantile Bank of India, Eastern Bank, Comptoir National d' Escompte de Paris, Yokoham Specie Bank, Deutsche-Asiatic Bank, International Banking Corporation and Russo-Asiatic Bank. The following figures show their position :—

			£
Capital, Reserve and Rest		...	22,600,000
Deposits in India	...	...	16,200,000
Cash in India	...	...	2,860,000

The position of these Exchange Banks, so far as India is concerned, is not so strong as these figures, appear to show for the following reasons :—

(1) They are all Banks with Head Offices out of India.

(2) The cash they hold in India is of very limited amount and represents only a small fraction of their liabilities to private depositors in India.

The other Banks are nineteen joint stock banks with

			£
Capital	...	...	1,837,000
Reserve and Rest	...	...	670,000
Deposits	...	...	17,100,000
Cash	...	...	1,868,000.*

* Statistical Abstract relating to British India, 1910.

Indigenous Agencies and Baners.

In addition to these, there are private Indian indi genous banking and quasi-banking firms, some of them o large means and connections ; money-lenders like the Seths, Marwaris, Nattu-Kottai Chetties, Bunyas, Shroffs Mahajans; and corporations like the Nidhis, land and mortgage banks. These are the agencies that furnish credit (and form the banking machinery) to the Indian population.

IV.—A Central Bank and its Functions

In previous discussions with regard to the functions to be assumed by the proposed State Bank, and the objects to be served by its existence, the following list includes all that was contemplated :—

1.	The Convertibility of the rupee	...	Mr. Hambro's note.
2.	Expansion and Contraction of supply of loanable capital	...	Mr. Hambro's note.
3.	Foreign Remittance Business	...	Govt. of India's letter 24th Aug. 1899.
4.	Management of Paper Currency	...	Govt. of India's letter 24th Aug. 1899.
5.	Consolidation and Concentration of banking facilities in India	...	Sir Clinton Dawkins' speech—1st Sep. 1899.
6.	Access to London	...	Do.
7.	Increase of banking capital	...	Do.
8.	Sterling capital	...	Gov. of India's letter 18th Jan. 1900.

The reasons that led to the Government of India's temporary abandonment of the scheme were :—

(1) Expense, owing in part to the fact that additional capital could not be profitably employed throughout the year.

(2) 'Provincial jealousies' and personal reasons.

V.—The Scheme of Mr. Lionel Abrahams.

The scheme of Mr. Lionel Abrahams is based on the assumption that a State Bank will be formed by the amalgamation of the three existing Presidency Banks.

The duties to be entrusted to the State Bank are (A) the holding as Bankers of Government Balances in India, (B) the management of Paper Currency, and (C) the Participation in the sale of drafts on India for meeting the Secretary of State's requirements.

The primary object for which a State Bank would be established would be in order that the Government of India might deposit with it balances in excess of those it now deposits or could deposit with the Presidency Banks as at present constituted. The chief result looked for from the increased deposits would be a reduction of the average rate of discount in India and of the range of seasonal variation in that rate.

(*a*) *Duties and Privileges that would not be entrusted to it.*

Mr. Abrahams says that (1) No Bank would accept the responsibility for the 'convertibility of the rupee' in the sense of undertaking a definite obligation to provide sovereigns for the public in exchange for rupees without limit of amount. All that a Bank could be expected to do is to issue sovereigns, when it has them, to the public as the Government now does at the rate of 1£—Rs. 15.

(2) No Bank would accept an unlimited obligation to sell bills on London (except so far as it is the agent of

the Government) at a fixed rate and without limit of amount in order to support exchange.

(3) The responsibility for the management of the Gold Standard Reserve should remain with the Government, though as a matter of convenience the carrying out of particular transactions relating to it might be entrusted to a State Bank.

(4) The question of allowing a State Bank to borrow in London on the security of its investments in order to send money to India raises certain difficulties of detail.

(5) The balance of considerations seems clearly against allowing a State Bank to receive deposits in London. If deposits in London were allowed, the object would be to enable the money to be remitted to India to be placed by the Bank at the disposal of trade ; but the liability to withdrawals by the London depositors, involving the automatic reduction of the amount at the disposal of the Bank and of trade in India, might be seriously inconvenient.

(6) There appears to be no reason why the bank should enjoy in relation to the coinage any special position such as was contemplated by Mr. Alfred DeRothschild.

(*b*) *Methods of business.*

The Bank should act under a code of rules sanctioned by the Government but that the Government or its representatives should take no part in the management. The other method is that the Government should directly

or through Government directors take part in the management of the Bank. This is supported by the precedents of the Bank of France, the German Reichsbank, the Austro-Hungarian Bank, the Bank of Russia and the Bank of Japan. If the Directors are well chosen their presence ought not to hinder the Bank in the efficient conduct of its business either in ordinary times or emergencies, and would be a safeguard, such as would be required alike by the direct interest of the Government and by public opinion against rash trading.

The transfer of the management of the Paper Currency to the Bank would increase the necessity for the appointment of Government directors, because no one would seriously propose that the £ 23,000,000 in sovereigns, £ 13,500,000 in rupees, and £ 9,300,000 in securities now (9th July 1913) held by the Government as the Paper Currency Reserve, should be handed over to a private enterprise Bank free from detailed Government control.

The position created by the presence at the London Office of a Government representative, ordinarily acting in co-operation with the representatives of the Bank, but with great powers of control in reserve, would be precisely similar to the position of the Government director in London of Guaranteed and other Indian Railway companies who has, under the contracts between the various Indian railway companies and the Government 'power to exercise at his discretion an absolute veto in all proceedings whatever at the Board of Directors.'

It would be a matter for consideration which of the following methods should be used to keep the Secretary of State in funds:—

Shipment of sovereigns from India either by the Government of India direct to the Secretary of State or by the Bank in India to its London office;

Withdrawal of money from the Gold Standard Reserve or Paper Currency Reserve in London against payment of the corresponding amount to those Reserves by the Government of India in India;

Issue of Loans by the Secretary of State;

Borrowing by the Bank in London in order to place money at the Secretary of State's disposal.

(c) *Capital, Division of Profits, Provision for revision or termination of relations between State Bank and Government.*

The money held by the Government in Reserve Treasuries on 31st March 1912 amounted to £3, 506,000. If this had been reduced to an Emergency Reserve of £1,000,000 by the transfer of £2,506,000 to the Presidency Banks, the total Government deposit in the Banks would have been approximately £5,634,000. These figures suggest that an increase of capital would be desirable. Mr. Abrahams says that as the Presidency Banks are unwilling to increase their capital, it would perhaps be best that the Government should be content to rely on an increase of its own control, rather than an

increase of stock holders' capital, for the additional security required in respect of its larger deposits without insisting on an increase as one of the conditions of a scheme of amalgamation.

The Government should share in the profits of the Bank. Such profit-sharing partnership between the Government and companies are a familiar feature in Indian administration, since most of the important railway systems of India are worked under similar agreements.

In view of the importance of the duties that would be entrusted by the Government to a State Bank, it would be clearly necessary to include in the agreement charter, or other instrument by which it was constituted, some provision such as are included in the constitutions of the Bank of France, the Bank of Japan, and the Reischbank for enabling the relations between the Government and the Bank to be revised or terminated at stated times or on the occurrences of specified events.

Under the German Bank Act of 1875 the Government had the right of discontinuing the Reichsbank and buying up its property on certain terms on 1st January 1891 and thereafter at the expiration of every ten year period. It could have done so at a considerable profit in 1911, but *the use it made of the option was to reduce the share of profit distributable to the shareholders.*

(d) Advantages and Disadvantages of the Scheme and Probability or Otherwise of its Adoption.

Mr. Abrahams summarises the considerations for and against the establishment of the Bank thus :—

Advantages :—

(1) The whole or a part of the money that is kept under existing conditions in Reserve Treasuries and possibly a part of what is now kept in District Treasuries would be deposited with the Bank and thus placed at the disposal of trade with the prospect of a beneficial effect primarily on discount rates and ultimately on the general course of industry and trade. The measure of this advantage depends mainly on the amount of money that would be transferred from Government Treasuries to the Bank.

(2) If the practice of lending at certain times from the Paper Currency is to be introduced, the best agency for carrying it out would probably be a State Bank in charge of the Reserve and at the same time in touch with the commercial community.

(3) The existing system under which Council Bills and telegraphic transfers are sold by the Secretary of State involves the transaction by him and his staff of work outside the ordinary sphere of a Government office. There would therefore be some advantage in the cessation of the Secretary of State's sales of Council Bills and the substitution of the sale, by the London office of a State Bank, of drafts on its Indian offices.

(4) There would be an advantage in the reduction of the Cash balance held by the India Office and consequently of the work and responsibility undertaken by it in connection with the placing of money on loan or deposit.

(5) The Government might find it *advantageous to borrow temporarily from* a State Bank (in India or England) instead of issuing a loan.

(6) The Government would derive a pecuniary advantage from its share in the profits of a State Bank, representing in effect interest received on the part of its balance taken from Reserve Treasuries and other places where it now lies idle.

Mr. Lionel Abrahams adds that he does not assume that the establishment of a State Bank would enable economies of any importance to be effected by the reduction of Government establishments, or that it would lead to any increase in the popularity of the Paper Currency or in the efficiency of its management. *Neither of these results seems probable.* As regards the latter the growth of the note circulation and the additional facilities for encashment that have from time to time been provided under Government management seem to indicate that the efficiency attained under that system is probably as great as would be attained under management by a bank.

(e) *Disadvantages of a State Bank and Arguments against its Establishment.*

(1) The Government of India and the Secretary of State, by surrendering the custody of Government money

to a greater extent than now might experience difficulty and delay in obtaining it when required.

(2) The advantages mentioned in (1) and (2) could be obtained to a considerable extent without the agency of a State Bank by an extension of the present practice of placing part of the Treasury Balances on deposit with the Presidency Banks.

(3) The amalgamation of the three Presidency Banks into one State Bank, with its headquarters presumably at Calcutta, would curtail the independence and responsibility of the Presidency Banks and it will be remote from the markets of Bombay and Madras.

(4) Differences might arise as to the relation between the London office and the Head office of the State Bank in India regarding the sale of remittances in India.

These do not include any reference to the possibility of loss to the Government through the transfer of the management of the Paper Currency. One of the conditions of the establishment of a State Bank, including the transfer to it of the management of the Paper Currency, would be the retention by the Government of the net profits of the Note issue.

Such is the scheme worked out by Mr. Lionel Abrahams in his memorandum where he says that the probability of a State Bank being established depends mainly on the views taken by the Secretary of State, the Government of India and the Presidency Banks.

VI.—The Leading Central and State Banks.

The closing words of the despatch of Lord Curzon's Government in January 1900 put the case for a State Bank tersely :—

"We should then look *to a control being* exercised *over the money market which the Presidency banks* do not pretend to have gained, to greater efficiency and to unity in the management of banking resources, to a more *repaid return into the general circulation* of money raised by taxation, to an accelarated development of railway and other enterprises and *to a relative steadiness in the rates of discount which* would be of vital importance to sound business in this country. It is only through some comprehensive measure of this character, which would increase the permanent banking resources of India while at the same time opening the door to a last banking resort, that India may count upon reaping full advantage, through access to London of the currency policy upon which she has embarked."

Enough has been said to show what the advocates of a State Bank for India have in their minds. I will deal with my criticism on a later page; but in the meantime let us grasp some fundamental principles involved in the organisation, working, and control of grate State and Central Banks such as the Bank of England, the Bank of France, the Bank of Japan, and the Reichsbank.

The Bank of England.

In the Bank of England, the bank par excellence of the modern world, the Issue Department is quite distinct from the Banking Department. The issue of notes is strictly regulated by the Bank Charter Act of 1844, whilst, on the other hand, the management of the deposits and of discounts and the determination of the reserve are left to the discretion of the directors. The Bank of England

conducts the banking business of the British Government as its banker. Into the Government's current account figuring in the balance sheets as "Public Deposits," all the taxes are ultimately paid, and from it all Government disbursements are made. The term "Other Deposits" occuring in the weekly balance sheets includes not only the deposits of private traders of corporations and foreign governments, but also the surplus money of the London bankers, and of many country banks. The term represents the total sum which the money market can at any moment claim from the Bank, and which the Bank would be bound to pay in notes or gold if required. The Joint-Stock bankers treat their balances with the Bank of England as being equivalent to gold, and include such balances in the basis of 'cash in hand and at the Bank of England' upon which they rest their superstructure of loans. 'Government Securities' on the assets side, covers the Bank's holdings of British Government Stocks, of Treasury Bills of Exchequer bonds, and of deficiency bills; these last being the security given by Government to cover temporary advances made by the Bank. Such advances are usually required at the end of the quarter, if the Government balance is insufficient to meet the dividend and other payments which then become due.

The reserves of the Bank of England form the foundation of the whole credit system of the United Kingdom. Experience has shown that even in the worst crisis the Bank of England notes are above suspicion. The Bank o

England could advance to other banks in times of crisis enough note and gold to replace the other forms of shattered credit and check panic. It keeps a large reserve of gold to meet the liability of a foreign drain which may arise in an unexpected way and to an unknown extent. Bagehot gives as an illustration the payment of the French indemnity to Germany made to a large extent through London. The essence of the operation was a transfer by the French Government of various amounts to the credit of the German Government. If the German Government chose to demand gold, the gold could only be provided by the Bank of England. A similar operation was effected when Japan exacted a war indemnity from China payable in gold. When the Baring's firm fell under a cloud, the Bank of England came to the rescue and averted a crisis by borrowing £3,000,000 of gold from the Bank of France and one and a half millions from Russia. It is the dominant position of the Bank of England that has made the London money market the only free market for gold. A collapse of credit in any country will lead to a sudden demand for gold which will be felt very keenly in England, and to a less extent in all other countries. Thus during the American crisis of 1907, nearly £25,000,000 in gold was shipped to New York. The greater part of this sum came direct from London, but the Bank of England, by raising its rate of discount, drew gold from seventeen other countries and to the amount of more than £15,000,000. This international supremacy of the London money market is due to the fact that England is a great creditor country.

The management of the British national debt has been confided to the Bank of England. The dignity which the position of banker to the government gives, the fact that it is the banker of the other banks of the country and for many years had the control of far larger deposits than any one of them individually; the privilege of issuing of notes:—all these privileges gave it early pre-eminence which it still maintains, though more than one competitor now holds larger deposits, and though collectively the deposits of the other banks of the country which have offices in London many times over pass its own. Some idea of its strength and position may be gained from the fact that Stocks are now inscribed in the bank books to an amount exceeding 1250 millions sterling.

The deposits and current accounts of the Bank of England and the Joint Stock Banks of the United Kingdom amount to £1,053,000,000. The average gold reserve held by the Bank of England amounts to about £35,000,000. The stock of gold held by the Joint Stock Banks amounts to £ 35,000,000. The gold in circulation as coin in the pockets of the people amounts to £70,000.000, The national wealth of the United Kingdom may be estimated to amount to £ 16,000,000,000. The average circulation of Bank of England notes in 1906 was £28,890,000. The number of banking offices in England and Wales in 1906 was more than 5880. The banking business of England, in 1906, was carried on by about ten private and sixty joint stock banks.

Outside the United Kingdom in the Colonies, India, and foreign countries, British banking activities wield collectively about £63,000,000 capital, and more than £495,000,000 deposits operating at about 3700 offices.

The Bank of France.

The Bank of France founded in 1800 by Nopoleon I, has remained from that time to the present day by far the most powerful financial institution in the country. It was founded to support the trade and industry of France and to supply the use of loanable capital at a moderate charge. These functions it has exercised ever since with great vigour and judgment, extending itself through its branches and towns attached to branches all over the country. Great pains have been taken, especially of recent years, to render services, to large and small businesses and to agricultural industry. In 1877 the offices of the Bank of France were 78 in number, in 1906 they were 447 including the towns connected with the branches. More than 20,000,000 bills were discounted in 1906, the total amount being £559,234,996. The advances on securities were in the same year £106,280,124. Since the 27th March 1890 loans of as small an amount as £10 are granted. In most case three "names" must be furnished for each bill or suitable guarantees or security given, but these necessary safeguards have not to be furnished in such a manner as to hamper applicants for loans unduly. In this manner the Bank of France is of great service to the industry of the country. It has never succeeded, however, in attracting deposits on

anything like the scale of the Bank of England or the banks of the English speaking peoples, but it held in 1906, aboubt £35,000,000 in deposits of which £14 millions was on account of the Treasury and £21 millions for individuals. At the present time the Bank of France operates chiefly through its enormous note circulation (in 1906, about £ 186 millions) by means of which most business transactions in France are carried on. The gold held by the Bank of France is considerably larger in amount than that held by the Bank of England. The large specie reserve of the bank has given stability to the trade of France, and has enabled the bank to manage its business without the numerous fluctuations in the rate of discount which are constantly appearing in England. The advantage to business from the low rate of interest which has to be paid for the use of borrowed capital in France is a great advantage to the trade and industry of that country. Besides the Bank of France, serveral great credit institutions carry on business in the country:—

	Capital & Reserve	Other liabilities, deposits, etc.
(1) the Banque de Paris et de Pays-Bas ...	£ 3·75 Millions.	£ 15 Millions.
(2) The Banque Francaise pour le Commerce et I' Industrie...	£ 2·5 ,,	£ 3·5 ,,
(3) The Credit Lyonnais ...	£ 1·4 ,,	£ 82·5 ,,
(4) The Comptir National d' Escompte de-Paris ...	£ 6·75 ,,	£ 47·5 ,,
(5) The Societe Generale de credite ...	£ 1·6 ,,	£ 10·1 ,,
(6) The Societe Generale pour favorsier en France ...	£ 7·5 "	£ 46 ,,

There is also the Credit Foncier de France with a very considerable capital, the business done is largely that of mortgages. Besides the six important joint-stock banks, mentioned above, there exists in France a large number of provincial banks, carrying on a very considerable business.

THE REICHSBANK.

Besides the Imperial Bank of Germany, the "Reichsbank," there are about 140 banks doing business in the States which from the German Empire. As far as Capital is concerned the £13 millions of the Bank of England considerably exceeds the £9 millions of the Bank of France and £12 millions of the Bank of Germany. The note-circulation of both the other banks is larger than that of the Bank of England, that of the Bank of France being £186 millions and of the Imperial Bank of Germany £69 millions in 1906. The capital and reserves of the German banks, including those of banks established to do business in other countries as South America and the Far East and of the Bank of Germany are about £133 millions with further resources, including deposits, notes, and mortgage bonds, amounting to fully £414 millions. The amount of the capital compares very closely with that of the capitals of the banks of the United Kingdom. The deposits are not the whole of the resources of the German banks as they make use, besides, of acceptances in a manner which is not practised by the banks of other countries. A large and increasing proportion of the resources of German banks is employed in industrial

concerns, some of which are beyond the boundaries of the empire.

Since 1870, when silver was demonetised and a gold standard was inaugurated, banking has made immense progress in Germany.

The Reichsbank, by far the most powerful banking institution in Germany, which came into full operation in 1876, is managed by the bank directory appointed by the Chancellor of the empire. The shareholders join in the management through a committee, of which each member must be qualified by holding not less than three shares. The Government exercises complete powers of control through the Chancellor of the Empire. The influence of the Imperial Bank now permeates by means of its branches (443) all the separate kingdoms of the empire—the uniformity of coinage introduced through the laws of 1871-73 rendering this possible. The imperial bank assists business principally in two ways—first through the clearing system which it has greatly developed, and secondly through the facilities given to business by its note circulation. Through the 'clearing system' money can be remitted from any of the 443 places in which there is an office of the Reichsbank, to any of these places, without charge either to the sender or the receiver. It is sufficient that the person to whom the money is to be remitted should have an account at the bank. Any person owing him money in the remotest parts of the empire may go to the office of the bank which is most convenient to him and pay in the amount of his debt, which is credited on the

following day at the office of the bank, without charge, to the account of his creditor wherever he may reside. The person who makes the payment need not have any account with the bank. The impetus given to business by this arrangement has been very considerable. It practically amounts to a money order system without change or risk of loss in transmission.

Considerable help is given to agriculture in Germany, France, Austria and other countries. The Prussian government has founded and endowed with £2 millions of public money, the Central Co-operative Bank whose object is to bring capital within the reach of the various groups of co-operative banks. In France, the Bank of France has been compelled to lend nearly £2 millions, free of interest, and to give about £120,000 per annum out of its profits to assist agriculture; this money is being lent free to 'regional' banks and by them at about 3 p. c. to local societies.

State help is very noticeable in the modern development of agriculture and industries, in Denmark, Canada, New Zealand, Ireland, France, Germany, Russia, Japan, and the United States, where the state has played a great part in performing or assisting functions which neither voluntary association nor individual enterprise could well perform alone; in providing technical education, expert advisers, exhibitions and prizes; in distributing information in all forms; in finding out markets, controlling

railway rates, subsiding steamboats, and industries; and even grading, branding, warehousing and freezing produce, and maintaining trade agents abroad.

The Bank of Japan.

Until her final adoption of a gold standard and currency in 1897-8 (when the Fowler Committee was sitting), the foreign money market was practically closed to Japan. The Bank of Japan exercises an effective control over the money market of Japan; and its great power and influence commence from 1900. In 1895 a group of special institutions, called agricultural and commercial banks were organised and centred on a Hypothec bank, the object of the system being to supply cheap capital to farmers and manufacturers on the security of real estate and otherwise. These various institutions, together with clearing houses, bankers associations, the Hokkaido colonial bank, the bank of Formosa, savings banks, the credit mobilier of Japan and a mint with the Bank of Japan at the top complete the financial and banking machinery of modern Japan. Japanese financiers believed from the outset in gold monometallism. In 1867, Japan did not possess so much as one banking institution worthy of the name; now it has 2211 banks with a capital of £55 millions, and deposits of £ 150 millions. In 1867 there was not one savings bank: now there are nearly 500 with deposits of over £50 millions. The average yearly dividends varied between 9 and 10 p. c. in the ten years

ending 1906. In this remarkable movement of industrial expansion, and economic development of Japan, the State has played the leading part.

VII.—What a State Bank for India Should Be: Its Functions.

A Central Institution for India Necessary.

The recent bank failures in Bombay and the Punjab have brought home to us the necessity of a central and powerful banking institution, with resources ample enough to play the part of the Bank of England, Bank of France and the Reichsbank, in England, Fance and Germany respectively, in coming to the assistance of other banks in times of panic and controlling the money market generally. The Presidency Banks as at present constituted are institutions run by Europeans in their own interests mostly if not exclusively. The bulk of the capital invested in them is in the hands of retired European officials and merchants. Their Directorates work hand in hand with the European Chambers of Commerce. Indian politicians should realise the disastrous and *reactionary part the European mercantile community plays in the political, economic and industrial spheres.*

Sir Edward Holden, Mr. Moreton Frewen, Messrs. Samuel Montagu and Co., and other interested parties have in recent years talked a good deal of nonsense about the 'great drain of gold to India.' The annual gold

production of the world is increasing and there is nothing to prevent London financiers and bankers from getting gold if they pay the price.

World's Gold production and Distribution.

The hollowness of their arguments would be evident from the following figures:—In 1900—10, the world's gold production amounted to nearly £ 810 millions. This was distributed in the decade thus:

Industrial Consumption	£192	millions.
Banks of Issue of Europe	172	"
Banks and Treasury of the United States	145	"
India	86½	"
Banks and Conversion fund of South America	69	"
Australasia, South Arfica, and Canada ...	37	"
Egypt	30	"
Bank of Japan	14	"
Banks of Mexico	6	"
Other banks' circulation and private holdings	54	millions.

The gold imported by India is about one-tenth of the world's production and of this a large part is locked up in Government Reserves and Treasuries.

Any attempt to bring a State Bank into existence as the deux ex machina to check the imports of gold into India is bound to end in failure and will find no response in Indian circles. It would be much better if Sir Edward Holden and others of his class do not trust their advice on Indians who do not want it and who are able to see through their disinterestedness.

Its Prime Functions.

There is a crying need for cheap money in India. The proper and prime function of a State Bank would be to make *money cheap, abundant, available during the busy season, and accessible to the Indian agriculturist, trader and entrepreneur.* I am opposed to the scheme of Mr. Lionel Abrahams for the formation of a State Bank for India by uniting the Presidency Banks; nor do I favour any scheme which has for its object the handing over carte blanche the paper currency, exchange business and cash balances to a private institution.

The proposed State Bank should be adequately capitalised. Ten millions sterling may be laid down as the minimum capital. The German Reichsbank is the proper model and the State Bank for India should be managed on the lines of the Imperial Bank of Germany.

The State Bank would effectively keep the Indian Gold Standard Reserve and Paper Currency Reserve in India, and *would put an end to the interference of the London money market*; and the present unsafe position of investment in securities of millions. It should be an instrument for allowing and encouraging the free and unfettered inflow of gold to India and keeping it in the country. It should be strictly a *State institution,* under the control of the Government so as not to be outside the pale of public and Parliamentary criticism. Of course provision should be made for the representation of Indian interests in the management.

Should help Agriculture and Co-operative Credit.

The State Bank should be in a position to help agriculture and the Co-operative Credit movement. The State Bank should do nothing to increase credit currency, as some would advocate, or in any way meddle with the increase of note circulation as such a step would only lead to the inflation of paper money and end in disaster. It should not be allowed to enter into foreign business on any large scale as the tendency to employ money profitably abroad would lead to the transfer of funds outside India. The financial needs of India should be its prime and sole consideration.

The agreements with the Presidency Banks, which favour them now unduly at the expense of other indigenous institutions should be revised. As, according to Mr. Abrahams, their revision is now under the consideration of the Government of India, Indian public bodies, merchants, bankers, and publicists should ask for a revision as regards

1. The independent valuation and publication of assets:

2. The personal of the directorate and its election ;

3. The remuneration rates and the keeping of minimum balances interest free ;

4. The guarantee of balances in opening branches.

There is no justification for Government keeping balances in and giving concessions to banks which are not in a position to grant even temporary accommodation to

it which in a crisis look to Government support, and which offer no assistance to the development of indigenous concerns.

The connection of the Government with the Presidency Banks has created an impression among large sections of the public that the State is responsible for their sound working and stability. The sooner this anomaly is done away with the better.

SHOULD CO-ORDINATE THE COUNTRY'S ENTIRE BANKING SYSTEM.

The proposed State Bank would put an end to this state of affairs by becoming the custodian of cash balances and the banker of the Government. It should co-ordinate the entire banking system of the country and extend banking facilities by spreading a network of branches all over the country to finance internal trade, and assist indigenous industries and agriculture. The Presidency Banks should be left severely alone and Government business withdrawn from them and transferred to the State Bank.

It is difficult to believe in the philanthropic intentions of London joint stock bankers who cry hoarse at India's 'drain of gold' while they wink at the abnormal withdrawals of gold from London by foreign countries. The Secretary of State should no longer be a party to the game of Lombard Street to prevent the inflow of gold to India.

A well conducted State Bank would go a long way to relieve the stringency of the Indian money market, bring

the banking machinery in line with the country's advancement; popularise and raise the value of Indian securities and restrict sterling obligations: give stability to the finances: secure the antematic working of the currency system and play a dominant part in the agricultural and industrial progress of India.

CHAPTER X.

A GOLD CURRENCY FOR INDIA AND THE CHAMBERLAIN COMMISSION.*

"The Royal Commission on Indian Finance and Currency held 34 meetings and examined 33 witnesses. Of the 10 commissioners only one was an Indian. And of the 33 witnesses only four were Indians—one official and three non-official. Out of a population of 315 millions, whose financial affairs were the subject of inquiry, only three non-official witnesses were selected by the authorities to represent their interests. The report † is a very disappointing document. The Commissioners have whitewashed the authorities with a big brush. The argument that the people of India do not desire gold but that they

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* This criticism appeared in the *Statist* (London) August, 1914.

† Final Report of the Royal Commission on Indian Finance and Currency, [cd. 7236] 1914. Price 9d.

Minutes of evidence. Vol. I. [cd. 7069]. Price 2sh. 10d. Vol. II. [cd. 7237] 1913. Price 1sh. 4d.

Appendices. Vol. I. [cd. 7070] 1913. Price 2sh. 10d. Vol. II.] cd. [7071] 1913. Price 2sh. 5d. Vol. III. [cd. 7238] 1914. Price 1sh. 2d. Index. [cd. 7239] 1914. Price 9d.

prefer silver is absurd for the simple reason that they have not been given any chance of exercising their discretion in the matter. It is the clique at Whitehall who autocratically determine the form of currency for the Indian people who are practically voiceless. It is the India Office that forces on the Indian people millions of token rupees against their will. The people of India have from time immemorial been accustomed to a full-value currency, and will not accept any policy that forces on them an inconvertible token currency. They do not care in the least for the ingenious arguments and now-fangled economic nostrums advanced by the Commission and the authorities in support of the present system. The policy of confiscation, inaugurated by the closure of the Indian mints to the free coinage of silver in 1893, has taught them a lesson which they will never forget. The closure reduced the savings of the people—held mostly in silver rupees and ornaments—by some 65 per cent. The most essential element in a sound currency policy is confidence and confidence the people of India have none in the present policy pursued by the authorities and supported by the Commission, for the simple reason that the token coin, the rupee, profusely minted in unlimited quantities and given to them unasked does not represent its bulion value and is in fact a currency note printed on silver, deçlaring 9*d.* to be 16*d.* arbitrarily by the fiat of the Government. In this respect the British Government is not better than the mediæval monarch Muhamed Bin

Toglak, who compelled the people to accept paper and pieces of leather as currency.

"The Commission deliberately lays down that provision should be made for the absolute security, for the convertibility into sterling of India's external obligations, while the internal currency should be allowed to drift. The foreigner is to be given the full-value sovereign—at the Indian taxpayer's expense—while the child of the soil is to be content ***with the illusion that a nine-penny piece is a sixteen-penny piece.*** British politicians and financiers who clamour for intervention if any foreign country repudiates its national debt are studiously silent when their own Government forces on the Indian people a nine-penny rupee as a sixteen-penny rupee. How could India compete successfully with its rupee, which costs 16d., with Japan whose yen is rated to her gold standard as the rupee at 10d.?

"Mr. Charles Roberts, the Under-Secretary for India, in reply to a question put by Sir George Scott Rebertson, said (March 26, 1914) that during the financial year 1912-13 the ratio borne by the absorption of gold to that of silver and notes was approximately 11 to 7.

The figures are

(1) Absorption of gold coin	...£11,101,000
(2) Absorption of silver coin	... 6, 993, 000
(3) Absorption of notes	... 46, 700

"These figures conclusively show that the people *do desire gold as currency*, and *do not preter* silver and notes

to gold as the Commissioners pontifically declare. The Commissioners cooly ignore the fact that during the 12 years ending March 31, 1913, the Indian public took up about 60 millions sterling in sovereigns. During the same period the India Office forced upon India something like the same amount in value of rupees, in spite of opposition. That responsible Indian opinion condemns the prodigious rupee coinage and asks for a gold mint to coin ten rupee pieces would be evident to anybody who glances at the speeches of Indian publicists delivered in the Viceroy's Legislative Council."

" The Commissioners say that gold in circulation in India was not used for export in 1907. This is surely a case of *suppressio veri*, for the authorities have plainly stated that they refused to give gold for that purpose. Throughout the report it is said that the Indian public continued to demand rupees, and not gold. It is the India Office who forced millions of token rupees on the public. The Commissioners say that gold in circulation is no support to exchange. Sir Guy Fleetwood Wilson and Sir James Meston have more than once remarked in the Legislative Council that the more widely gold circulates in India as currency the less would be the Government's difficulty in supporting exchange. To support this argument, reference is made to the policy of the Bank of England and the Reichsbank and Germany is described as replacing the gold in circulation by notes and keeping the gold so obtained in reserve. No evidence

is adduced to support this contention. Even if the argument be sound the position is not affected. To compare India with rich creditor nations who for their enormous note circulation and cheques keep large reserves, and who protect their gold, is absurd for the reason that India is not a creditor country, and it has not reached an advanced stage in currency and banking. England, France and Germany are economising gold to the utmost, because *they have perfected a system of banking and credit and have advanced beyond the stage where metallic currency bears a large proportion*. The Commission in their anxiety to use every argument—sound or unsound—to oppose a gold currency at all costs parade dogmatically such a fallacious argument as this. The Commissioners also say that has gold coins will displace notes rather than rupees, the introduction of gold as currency is objectionable. Is it fair to force notes on the public, and say that because gold will displace notes it is not to be encouraged ? if note circulation is to be increased, that could only be done by the people showing preference for it. That is the *next stage in the currency evolution of India*. What India now wants is metallic currency of full value. An extended circulation of notes can only succeed an extensive circulation of gold as currency, but not precede as the Commissioners observe. Sir Guy Fleetwood Wilson has emphatically declared that ten-rupee gold pieces *will not displace ten-rupee notes*. The conclusions of the Chamberlain Commission are not

sound from the Indian point of view, and as such cannot be accepted as authoritative by the Indian public, who are opposed to any policy that forces an unlimited token currency on them and refuses to give them full-value gold currency.

Appendix—A.

Summary of the Report of the Royal Commission on Indian Finance and Currency.

The Final Report of the Royal Commission on Indian Finance and Currency [Cd. 7236] is accompanied by Volume II, of the Minutes of Evidence taken before the Commission [Cd. 7236], the Appendices thereto [Cd. 7238], and the index to the whole of the evidence [Cd. 7239].

It will be remembered that on September 12, 1913, an *interim* report and a volume containing the evidence taken up to August 6 was published. This "report" was merely a communication to the effect that the Commission had been at work carrying out its instructions, and served as a covering letter to introduce the evidence. The present blue books contain the actual report of the Commission.

The report is signed by all the Commissioners, including Mr. Austen Chamberlain (Chairman), Lord Kilbracken, Lord Faber, Sir Robert Chalmers, Sir Ernest Cable, Sir Shapurji Broacha, Sir James Begbie, Mr. R. W. Gillan, Mr. H. N. Gladstone, and Mr. J. M. Keynes. The Secretary was Mr. Basil P. Blackett.

The report, which is dated February 24, though practically unanimous, has appended to it a note by Sir James Begbie stating that he is unable to concur in the conclusions and recommendations of the Commission on the subject of currency policy. His principal objections are given later.

Summary of the Report.

A careful summary of the Commissioners' conclusions is given in the Report, which will be found invaluable by those who study it. We give it in full.

(i) The establishment of the exchange valve of the rupee on a stable basis has been and is of the first importance to India (par. 8.)

(ii) The measures adopted for the maintenance of the exchange value of the rupee have been necessarily and rightly rather supplementary to than in all respects directly in pursuance of the recommendations of the Committee of 1898 (paras 7 and 44 to 46).

(iii) These measures worked well in the crisis of 1907-8, the only occasion upon which they have been severely tested hitherto (paras. 48, 49).

(iv) The time has now arrived for a reconsideration of the ultimate goal of the Indian Currency System. The belief of the Committee of 1898 was that a Gold Currency in active circulation is an essential condition of the maintenance of the Gold Standard in India, but the history of the last 15 years shows that the Gold Standard has been firmly secured without this condition (paras. 47, 50).

(v) It would not be to India's advantage to encourage an increased use of gold in the internal circulation (par. 64).

(vi) The people of India neither desire nor need any considerable amount of gold for circulation as currency, and the currency most generally suitable for the internal needs of India consists ofrupees and notes (paras, 50, 76).

(vii) A mint for the coinage of gold is not needed for purposes of currency or exchange, but if Indian sentiment genuinely demands it and the Government of India are prepared to incur the expense, there is no objection in principle to its establishment either from the Indian or from the Imperial standpoint; provided that the coin minted is the sovereign (or the half-sovereign) and it is pre-eminently a question in which Indian sentiment shonld prevail (paras. 69, 73).

(viii) If a mint for the coinage of gold is not established, refined gold should be received at the Bombay mint in exchange for currency (par. 73).

(ix) The Government should continue to aim at giving the people the form of currency which they demand, whether rupees, notes, or gold, but the use of notes should be encouraged (par. 76).

(x) The essential point is that this internal currency should be supported for exchange purposes by a thoroughly adequate reserve of gold and sterling (par. 76).

The Gold Standard Reserve,

(xi) No limit can at present be fixed to the amount up to which the Gold Standard Reserve should be accumulated (par. 86).

(xii) The profits on coinage of rupees should for the present continue to be credited exclusively to the Reserve (par. 89).

(xiii) A much larger proportion of the Reserve should be held in actual gold. By an exchange of assets between this Reserve and the Paper Currency Reserve a total of about £10,000.000 iu gold can be at once secured. This total should be raised as opportunity offers to £15,000,000, and there after the authorities should aim at keeping one half of the total Reserve in actual gold (paras. 93 to 100).

(xiv) The Indian branch of the Gold Standard Reserve in which rupees are now held should be abolished, the rupees being handed over to the Papper Currency Reserve in exchange for gold (par. 98).

(xv) The proper place for the location of the whole of the Gold Standard Reserve is London (paras. 90 and 100).

(xvi) The Government should definitely undertake to sell bills in India on London at the rate of 1*s*. 3-29/32*d*. per rupee whenever called upon to do so (par. 101).

(xvii) The Paper Currency system of India should be made more elastic. The fiduciary portion of the note issue should be increased at once from 14 crores to 20 crores, and thereafter fixed at a maximum of the amount of notes held by Government in the Reserve Treasuries *plus* one third of the net circulation, and the Government should take power to make temporary investments or loans from the fiduciary portion within this maximum in India and in London, as an alternative to investment in permanent securities (paras. 112 and 113).

(xviii) We recommend the immediate universalisation of the 500-rupee note and the increase of the facilities for the encashment of notes (paras. 115).

Balances.

(xix) The aggregate balances in India and London in recent years have been unusually large. This has been due mrinly, though not entirely, to accidental causes and to the exceptional prosperity of India (paras. 125, 126).

(xx) Caution is justifiable in framing Budgets in India but has been carried rather further than was necessary in recent years (paras. 126 and 128).

Proposed Change of Date for the Budget.

(xxi) A change in the date of the commencement of the financial year from the 1st April to November or the 1st January would probably enable the Government of India to frame more accurate Budgets. Such a change would also enable the India Office to fix the amount of their borrowings in London with closer regard to immediate needs. We commend this proposal for favourable consideration (paras. 128 and 190).

(xxii) The practice of transferring revenue surpluses to London to be used in avoiding or reducing fresh borrowings for capital expenditure has been thoroughly justified in the interests of India, and the Secretary of State has made good use for this purpose or for actual reduction of debt, of the balances from time to time accumulated in his hands (paras. 130 to 133 and 179).

(xxiii) But the recommendations which we make as regards loans by Government in India may lead to a revision

of the occasions, though not of the extent, of transfers of money to London (par. 133).

(xxiv) The independent Treasury system of the Indian Government is not an ideal one. It is partly responsible for the stringency which recurs annually in the Indian Money Markets (paras. 137 to 143).

(xxv) We recommend that the Government of India should make a regular practice of granting loans to the Presidency Banks from their surplus balances in India against security on terms to be negotiated with the Presidency Banks (paras. 150, 163, 164).

(xxvi) In deciding upon the location of surplus balances the Government of India and the Secretary of State should act in consultation, and while the transmission ef the necessary funds to London at favourable rates of exchange is the first consideration, the authorities should have regard to all the factors, including the possibility of utilising surplus balances for loans in India (pars. 159 to 161).

(xxvii) In carrying out these recommendations the authorities should proceed tentatively and with caution (par. 165).

(xxviii) We recommend that the amount of the annual rupee loans in India should be increased as much as possible. The figures of recent loans appear to have been somewhat over cautious. We call attention to the questions of relaxing present regulations in regard to endorsements on rupee paper and of creating new forms of securities (pars. 167 to 169).

Council Drafts not sold as a Convenience to Trade.

(xxix) The Secretary of State sells Council Drafts, not for the convenience of trade, but to provide the funds needed in London to meet the requirements of the Secretary of State on India's behalf (par. 186).

(xxx) The India Office perhaps sold Council Drafts unnecessarily at very low rates on occasions when the London balance was in no need of replenishment; but we do not recommend any restrictions upon the absolute discretion of the Secretary of State as to the amouut of drafts sold or the rate at which they are sold, provided that it is within gold points. The amount and occasion of sales should be fixed with reference to the urgency of the Government's requirements and the rate of exchange obtainable, whether the drafts are against treasury balances or against the reserves (pars. 181 to 185.)

(xxxi) There has been some excess of caution in the renewal of debt by the India Office during recent years (par. 192.)

Loans to Borrowers in the City.

(xxxii) The system of placing portions of the India Office balance out on short loan with approved borrowers in the City of London is, on the whole, well managed; but we draw attention to—

(*a*) The term for which loans are made.

(*b*) The desirability of giving greater publicity to the methods by which admission is gained to the list of approved borrowers.

(c) Some defects in the list of approved securities and especially its narrow range (paras. 196 to 200).

(xxxiii) There is no ground for the suggestion that the City members of the Secretary of State's Council showed any kind of favouritism in placing on deposit with certain banks with the directorates of which they were connected, a part of the India Office balance at a time when it was too large to be placed entirely with the approved borrowers. But we call the attention of the Secretary of State to the desirability of avoiding as far as possible all occasion for such criticism, though it may be founded on prejudice and ignorance of the facts (par. 202).

(xxxiv) We observe that in our opinion the time has come for a general review of the relations of the India Office to the Bank of England (par. 203).

(xxxv) The working of the present arrangements for the remuneration of the Secretary of State's broker should be watched and, if necessary, they should be revised (par. 204).

(xxxvi) We record our high opinion of the way in which the permanent staff, both in India and in London, have performed the complicated and difficult financial duties placed on them (par. 7).

(xxxvii) We recommend a continuance of a Finance Committee of Council as providing the machinery most suitable for the work required (par. 208).

Constitution of Finance Committee.

(xxxviii) The Finance Committee should, if possible, contain three members with financial experience, representing—

(*a*) Indian Official Finance.

(*b*) Indian Banking and Commerce.

(*c*) The London Money Market.

In any case there should be at least one member with Indian finacial experience. The absence of any representative of Indian finance on the Committee since 1911 has resulted in giving undue prominence to the representation of London City experience (par. 210.)

(xxxix) While we suggest that the changes recently proposed, and now under discussion, in the constitution of the India Council may require some modification in order to provide for the continuance of a Finance Committee of Council, we are in sympathy with the desire for expediting financial business, which is one of the objects in view (par. 214).

(xl) The present arrangement under which the Assistant Under Secretary of State, having financial experience, is able to share with the Financial Secretary the responsibility for financial business in the India office has many advantages. For the future we recommend that either—(1) the Under Secretary or Assistant Under Secretary of State should have financial experience as at present, or (2) there should be two Assistant Under Secretaries of whom one should have financial experience (par. 216).

(xli) We are not in a position to report either for or against the establishment of a State or Central Bank, but we regard the subject as one which deserves early and careful consideration, and suggest the appointment of a small expert Committee to examine the whole question in India and either to pronounce against the proposal or to work out in full detail

a concrete scheme capable of immediate adoption (par. 221, 222.)

Views of Sir James Begbie.

Although Sir James Begbie is sufficiently in accord with the report as a whole to be able to sign it, his "note," referred to above, almost amounts to a minority report on currency policy. Sir James *disapproves strongly of the further extension of the circulation of rupees as being "undesirable for a country which absorbs gold on a large scale."* Moreover is not satisfied that a good case has been made out for keeping the metallic portion of the Gold Standard Reserve in London. He thinks the Coin Reserve of the Paper Currency Department should be held exclusively in India, and that no portion this Reserve should be employed in London in temporary investments.

A State Bank.

It will be seen that the Commissioners preserve on open mind on the question of a state or central bank, but they are so much impressed with the evidence and subjects, among others by Mr. Stanly Reed, that they are strongly of opinion that the matter should not be allowed to rest but should at once be carefully gone into by an expert committee. No doubt they adopted this attitude largely in consequence of the very able memorandum drawn up by Mr. J. M. Keynes in collaboration with Sir Earnest Cable which is printed as an anaexe to the report. Mr. Keynes's brief summary of his scheme in as follows:—

(1) The Indian Offices of the State Bank shall be permitted to supply their own customers with sterling remittance, but in

the purchase of sterling trade bills they shall be confined to the re-discount of such bills for other banks.

(2) The London office of the State bank shall have no direct dealings as a banker with the general public. Its business shall be confined to :—

(a) The sale of other banks* drafts and telegraphic transfers payable at its Indian offices.

(b) The re-discount of sterling bills at the Bank of England.

(c) Borrowing for short periods from the Bank of England.

(d) The loan of funds on the London Money Market.

(e) The replenishment of the Secretary of State's funds at the Bank of England.

(f) The flotation of sterling loans on behalf of the Secretary of States.

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* Including certain large firms.

Appendix—B.

Some Extracts from the Report.

The nature of the report is sufficiently indicated by the above summary of its conclusions. Space does not admit of extensive quotations from it, but there are cases where the summary can be supplemented usefully by a few extracts.

Maintenance of Exchange.

48. The crisis of 1907, 8 was the first great test to which the Indian Currency System, as develeped since the date of the report of the Committee of 1898, was put, and the arrangements made for maintaining the exchange value of the rupee stood the test well. The sudden fall of exchange to 1*s*. 3 23/32*d* in Calcutta in November 1909 was due, not to any insufficiency in the sterling resources of the Government, but to a temporary *failure to utilize* those resources properly. No one in either official or unofficial circles had any experience of the machinery required for meeting the crisis, nor had any *plans been fully worked out in advance* for dealing with such a crisis. As may be seen from the interim report of the Indian Railway Committee of 1907 already quoted the India Office

apparently believed that the sole, or at any rate, the main, purpose of the Gold Standard Reserve was to meet the requirements of the Secretary of State in London when Council Drafts could not be sold, while the Government of India made the mistake of refusing to give gold from the Paper Currency Reserve for export, though allowing their gold to be drained away for internal uses. Both authorities thus *failed to recognize the wisdom*, of the recommendation of the Committee of 1898 that the principal use of a Gold Reserve is that it should be *freely available* for foreign remittances whenever the exchange falls below specific point. But it is fair to add that the Committee of 1898 themselves seem to have believed that a cessation of the sale of Council Drafts combined with the use of funds from the Gold Standard Reserve for meeting the requirements of the Secretary of State in London would suffice te maintain exchange, without any provision of gold by the Government for private export.

49. These mistaken ideas, were, however, very quickly rectified in practice, and the steps taken to restore and maintain exchange proved adequate. It is easy to see after the event that in this or that, point a mistake was made, but, regard being had to the difficulties and the novelity of the circumstances, the final success achieved by the Indian authorities both in India and in this country must be recognized as a proof of the soundness of the currency scheme itself and of the measures ultimately taken for meeting the crisis.

50. The *first lcsson* to be learent from the experience of the last 15 years is that the Indian Currency System has not developed on the lines of the system adumbrated by the

Committee of 1898—viz., a Gold Standard based on a Gold Currency in active circulation, such as the system in the United Kingdom is commonly held to be. On the contrary, it was proved in the crisis of 1907-8 that the gold in circulation in India was of very little value for maintaining the exchange. The Indian system, as the crisis of 1907-8 revealed it, is, as, we have said, more like the system advocated by Mr. A. M. Lindsay in 1898—viz., a Gold Standard supported by gold in reserve with a currency for internal use composed mainly of rupees and notes. The chief difference between Mr. Lindsay's system and the present system is that, instead of the Reserve depending mainly on the power to borrow in a crisis, an actual reserve of gold or sterling assets has been provided.

51. Experience has further shown that, though in origin and machinery the Indian Currency System based on what is now known as the Gold Exchange Standard is different from the currency systems of such countries as Russia, Holland, Japan, or Austria-Hungary, yet in actual practice these latter systems are *not very different* from that of India. In these countries, as in India, gold actually in circulation is of secondary importance, and the internal medium of circulation whether it be a silver coin or a paper note, depends for its value in exchange, not on its own intrinsic worth, but on the maintenance in reserve of gold, and in the case of Russia and Japan, at any rate, large portions of the gold resources are held not at home but in London, Paris, and other monetary centres, just as India's Gold Standard Rsserve is held in London.

52, A third leason which the crimsis of 1907-8 teaches is the desirability offormulating in advance and *giving publicity*

to the policy which it is intended to pursue in a criss. It is almost as important that the general public should have confidence in the determination of the Government effectively to use their resources to maintain the rupee at 1*s.* 4*d*.. as it is that the Government should have the necessary resources for so doing.

Gold Standard Reserve needed in London.

88. It may be well to notice the suggestion made my one witness that the Gold Standard Reserve has been built up by means of great sacrifices on the part of the revenues of India. The word "sacrifices" appears to us to be out of place in this connexion. In building up the Reserve India has not sacrificed revenue. The most that can be said is that revenue has not been artificially swollen by the appropriation in aid of ordinary expenditure of certain funds which were rightly and necessarily devoted to a special purpose.

89. While therefore looking beyond the immediate future we hold that the Government of India ought to be alive to the possibility of the aggregate sterling reserves eventually reaching an unnecessary high figure, we recommend that the whole profits of the silver coinage together with any interest accruing from investment or loans made from the Gold Standard Reserve should for the present continue to be placed to the credit of that reserve and that no diversion similar to that made in 1907 for railway development should be under any circumstances permitted until further experience allows a much more accurate definition of the calls which the Reserve may have to meet than is at present possible.

90. The *most suitable* place for the location of the Gold Standard Reserve is in our opinion *undoubtedly* London and in this view the majority of our witnesses concurred. London is the clearing house of the world, India's chief customer is the United Kingdom, and London is the place where the money is required both for the Secrctary of State on India's behalf and for payment of India's commercial obligations to this country and the world in general. If the Reserve were kept in India it would have to be shipped to London to be used. This would invole delay at a moment when immediate action is essential. The objections put forward to keeping it in London rest on the belief that the Reserve is regarded in London as being available to supplement the bank of England's reserve. There is no foundation at all for this belief. We have no hesitation therefore in recommending that the whole of the Gold Standard Reserve should be kept in London.

Loans to the Presidency Banks.

After recommending that the Indian Government should make loans from balances in India, the report goes on to discuss how this can be done with due regard to all the considerations which deserve attention.

161. It does not seem to us that the various factors which have to be considered have in the past been fairly set against one another. Indeed, a division of business between the home and Indian authorities has been adopted which seem to us anomalous. The management of the balances in India, it is said, rests with the Government of India. On the other hand, the administration of Council Drafts is recognized to rest with the Secretary of State. But it does not, seem to have been

clearly grasped that the two *are interdependent.* We have been told that the policy adopted with respect to Council Drafts has in fact been to sell freely so long as there was a demand and so long as there were balances sufficient to meet them. In other words, It has been assumed that the proper place for any surplus balances is London. In the majority of cases this may have been true, but no such general assumption can be properly made when the circumstances are constantly varying. The location of any surplus balances should be determined on a consideration of all the factors. It should be determined further in consultation between the Home and the Indian authorities, and the possibility of the grant of loans to the Indian market should always be considered.

Sales of Council Drafts.

186. Though the convenience of trade and the regulation of exchange are important considerations for the India Office in the management of the system, we think that in some of the explanations of it given to the public, too much stress has been laid on this aspect and too little attention has been directed to the *primary and by far the most important function* of Council Drafts, *viz*, the transfer of London from India of public funds to meet the requirements of the Secretary of State in London.

APPENDIX C.

Sir James Begbie's Minority Report.

NOTE BY SIR JAMES BEGBIE.

I have signed the Report subject to the following note:—

1. I regret that I am *unable to concur* in the conclusions and recommendations contained in the Report on the subject of the *currency policy*.

2. That policy has been directed to the attainment of stability in the exchange value of the rupee by means of gold reserves collected from the profits realised on the coinage of rupees. Whilst it has been successful in achieving that object, it has brought into existence an exntensive token currency which, in my opinion, is *not conducive* to the interest of India. I regard that form of currency as undesirable for a country which absorbs gold on a very large scale.

3. A brief examination of some of the chief arguments brought forward in favour of the measures actually adopted for securing stability in the exchange value of the rupee, and of those urged against the use of the means orginally proposed for securing stability, viz., a gold currency with gold in active circulation, may help to make my point of view clear.

4. I take first the arguments given in support of the existing policy. The point has been pressed that the public *preferred and demanded* rupees, and the demand had to be met. That is a reason which carried considerable weight in the early years of the period during which the policy has been developed, but it has now lost its force. The public have absorbed during the last 12 years approximately equal amounts of rupees and sovereigns, but the demand for sovereign has rapidly increased during the last four years. These recent gold requirements show an important change in the currency needs of the people, and indicate a *preference for gold over rupees.*

5. The next argument is one which has latterly come into prominence, viz., that the Indian system has close affinities with the currency systems of certain other countries. Such analogies are, I consider, *unsafe* as a *guide to Indian policy*, because the *conditions* are *not identical.* In none of those other countries is there the same private absorption of gold that there is in India. Whatever experience elsewhere may be, the recent demands for gold in India show a loss of confidence on the part of the public in the token rupee, and that is a situation that should not be ignored. The need for confidence to secure the exchange value of the rupee is recognised, but not the need for confidence in the currency in *other respects.* It is no longer possible to say that the token rupee is preferred by the Indian public and satisfies their currency requirements in face of the fact that they have latterly exhibited so strong a desire for gold as the statistics indicate. At least there is not now such general confidence in the rupee as would, in my opinion, alone warrant further large extensions of the token currency.

6. Another argument given is that it is desirable to educate people in the use of more economical forms of currency than gold. That, of course, is a desirable object, but the experience so far gained does not inspire the hope that the educative effect of present methods will be successful in attaining it. The increased circulation of notes may be pointed to as an advance towards the use of more economical forms of currency; but it is due, not solely to a desire to economise in currency, but partly at least to *increased facilities* for the employment of notes. Against this favourable sign must be set the increased absorption of sovereigns. This *demand for gold coin*, accompanied as it has been by increased demands for gold bullion, *dominates the whole currency situation.* For a country which takes gold in great quantities an extensive token currency is most unsuitable. It has the usual effect of *driving gold out of circulation.* It has the still greater disadvantage that it keeps the gold out of useful employment. People who value gold so highly as to store and hold it to the extent witnessed in India are not likely to invest or make other profitable use of it, so long as they have to take the risk of being repaid in token coins when they realise their investments. The token currency not only prevents the holders of the gold from utilising it to some advantage, but the country as a whole loses the benefit that should accrue to it from the possession of great wealth. While, therefore, the process of education in the use of economical forms of currency is proceeding, the probabilities are that the people will none the less continue to amass their growing wealth in solid gold. In my opinion, what is needed is not education in the use of economical currency so much as *education in the use of the stored up gold.* The first step, however, is to convince the people that if *they use their gold they wil*

get it back when they want it and that cannot be done while there is this extensive and expanding token currency. A currency in which gold was a more prominent feature and to which token coins were less freely added would be more practical as an educative force. Gold coins would be suitable and convenient for many ordinary currency purposes, and by using them the public would be gradually led to use gold for other purposes, such as investments, especially if *a considerable circulation of gold existed*, sufficient to inspire the public with confidence that *when they wanted their gold restored to them they could get it.*

7. I come next to reasons advanced against a gold circulation. It has been said that gold in reserves is better than gold in circulation for the support of exchange. That, of course is true, but it is equally true that gold *in circulation is a better protection for xchange than token coins. Gold in circulation can never endanger exchange stability.* It cannot be too strongly emphasised that *danger lies in the token currency alone* when unfavourable trade conditions prevail. In the words of the Report (paragraph 62), "It is the surplus tokens and not the gold which will seek an outlet at times of weak exchange" Moreover, *resesves of gold can be accumulated from a gold circulation through the note issue and a good banking organisation.* Even under the existing system the most satisfactory part of the gold reserves is the gold in the Paper Currency Department. The full equivalent of the currency issued against it is saved in gold for the reserve, whereas the Gold Standard Reserve represents only about one third of the token currency from which it was saved, aud will *redeem only that proportion of it*, unless the extreme step is taken of melting

down rupees. Also, a considerable portion of the coin reserve of the Note Department must be held in rupees at present. With a *free circulation of gold* a much smaller portion could be held in rupees and correspondingly *a larger part in gold.*

8. The objection that gold is an expensive form of currency is one which, I consider, can easily be pressed too far in the case of India. The token currency is being steadily exchanged for gold. To the extent at least to which that process is carried the *country is not saved the expense of the* gold by the present system. Also, if, as I think is the case the token currency has the effect of encouraging and strengthening the hoarding habit, it is *not true ecônomy to object to the expense of a gold currency* and as a result *to force gold out of circulation and prevent its employment in other useful ways thus causing extreme waste.*

9. Another objection is that gold coins, especially coins of small value, would be formidable rivals to currency notes. In my opinion notes will usually be preferred to coin—whether gold or silver—for such purposes as bank cash reserves and frequently for effecting remittances. If the use of notes for other purposes is endangered in any way by circulation of gold coins because the latter are preferred, it has to be remembered that notes may be affected by the growing demands for gold. The possibility that these demands will spread should be recognised. If the public want gold they will get it wh they hold notes or rupees, and when they *prefer gold* they are not likely to be satisfied with notes, payment of which can be demanded only in rupees.

10. The hoarding habit in India is no doubt a difficult problem. Its recent rapid development in increased demands

for gold, and the possibility of its further expansion, make it a question of the highest importance. I do not, however, think the opinion expressed in paragraph 75 of the Report that "the hoarding habit is sanctioned by the experience of centuries in India and by religious and racial laws and customs" sufficiently accounts for the accelerated pace it has latterly acquired. In my opinion, that is to a large extent the *outcome of the policy which has brought into existence the extensive token currency.* Up to the closing of the Mints of 1893 to the free coinage of silver the public had been accustomed for generations *to full value coins for their currency requirements*, and they are not now prepared to hold their profits and savings in the form of overvalued rupees. Hence their preference for gold, both coin and bullion. I am therefore unable to agree that the habit is one which should be regarded *as inevitable* in Indian social or religious conditions and not susceptible to treatment. The statistics show that great progress has been made in attracting the cash reserves of the people into useful and profitable channels, such as investments and deposits with banks. But they also show this later reversion to hoarding on an extended scale, which is thus a retrograde movement, indicating a greater and not unnatural desire for solid security than for profitable returns on investments in a currency medium which does not provide the kind of security now clearly preferred. It seems to me that it is not to the interest of India to have its rapidly accumulating wealth diverted into idle hoards by the token currency policy.

11. But even if that policy has not been the cause of the increased demand for gold, the difficulty remains of drawing hoarded gold into profitable use. Capital is proverbially timid

and nowhere more so than in India. If, therefore, the gold held in India is to be attracted into useful employment it can, I think, be done only by providing security that when it is invested the investments will continue to represent gold, and be convertible into gold, by means of a gold currency policy in which the public will have confidence.

12. For the reasons I have indicated, I am of opinion that the true line of advance for the currency policy is to discourage an extension of the token currency by providing increased facilities for the distribution of gold when further increases in the currency become necessary. These greater facilities should, I consider, include the issue of gold coins from an Indian mint of a value *more suitable for general currency use than the sovercign and half-sovereign, for the purpose of assisting the distridution of gold when, as is frequently the case, the balance of trade is strong in India's favour and gold arrives in considerable quantites. I also think that supplies of gold coins should be laid down in the up country districts with the object of giving the general public effective opportunities of obtatining gold coins.*

13. I do not, however, recommend the dispersal into circulation of any of the existing gold reserves. The maintenance of the exchange value of the rupee should continue to be the guiding principle of the policy, and the reserve accumulated specially to secure the stability of exchange should continue to be specifically set apart for that purpose. But as future additions to the currency become necessary by reason of favourable trade balances, the additions should take the form of gold which will be imported in settlement of the balance of trade. With the present system it is sometimes found necessary to

anticipate fresh additions to the currency by providing silver for coinage from the reserves. In my opinion it would be better to issue gold from the Paper Currency Reserve to the public in such circumstances and allow the gold when imported later to accumulate again in that reserve.

14. The procedure which I have suggested would, of course, be applicable only to normal time. Should the situation caused by the crisis of 1907-8 recur, and the gold reserves be depleted to support exchange and the silver reserves inflated, the issue of gold for internal purposes would require to be suspended until the surplus rupee reserves were reabsorbed by the public and the gold reserves restored. So long as such an extensive token coinage is in existence, it is important that the public should use it.

15. I also regret to be unable to assent to the proposals contained in the Report whereby the Treasury balances in India and in London may be utilised for the purpose of maintaining the exchange value of the rupee, and for the provision of fresh supplies of coined rupees. I see no good reason for associating the Government cash balances with currency reserves for purely currency purposes. If the gold reserves should not be strong enough to maintain exchange in a time of difficulty, it would be better to raise additional funds by the issue of temporary loans than to rely upon cash balances for such a purpose.

16. Also, I consider the cash balances an unsuitable source from which to provide supplies of silver for coinage. For example, the balances laid down in London represent mainly the proceeds of Council drafts which are sold throughout

the year at current rates of exchange, and *frequently at rates well below gold import point.* If money so provided in London is used to add rupees to the currency in India it means that fresh rupees are issued at more than the established ratio of 15 rupees to the sovereign.

17. The same objection applies to sales of Council drafts below gold point against the Gold Standard Reserve in India for the resissue of rupees withdrawn from circulation to support exchange, as in 1909-10, and against that Reserve and the Paper Currency Reserve for the provision of new currency. The necessity for working at gold import point in such circumstances does not appear to be sufficiently recognised, but in my opinion it is most important. To work the system by means of drafts at any other rate not only breaks the standard ratio, but lays Government open to the charge of departing from the standard to secure the profits on coinage.

18. The system by which the proceeds of all Council drafts sold are passed into the general balances of the Secretary of State, and portions are subsequently allocated to the Gold Standard or Paper Currency Reserves is open to the same objection. It seems necessary to separate sales on account of those latter funds from sales for purely Treasury purpose, as they should be made only at the special rate indicated above.

19. I am not convinced that a good case has been made out for the location of the metallic portion of the Gold Standard Reserve in London. I consider that the portion which the Commission are recommending to be held in gold should be held in India earmarked for the support of exchange, and that when

it has to be used for that purpose, it should be issued to the public who want it for export. I should not, however, be in favour of an immediate transfer of the gold now held in London to India. But when the Reserve in London is again drawn upon for the support of exchange, it should not later be restored to London, but should be allowed to accumulate in India in gold.

20. I also consider that the coin reserve of the Paper Currency Department should be held exclusively in India. It is *in India alone* that the notes for the redemption of which the Reserve is maintained fall to be converted into coin on demand. The transfer of a portion of the Reserve to London is a measure which is not calculated to improve the credit of the note issue and is therefore undesirable. For the same reason, I am unable to approve of the proposal to employ in London a portion of the Reserve in temporary investments.

J. BEGBIE.

APPENDIX—D.

Summary of the Evidence.

SIR JAMES MESTON.

The Abnormal Balances.

In the evidence before the Commission Sir James Meston on behalf of the Government of India rebutted the suggestion that the abnormal balances of recent years had been intentionally high.

He admitted that the Government of India had erred somewhat on the side of excessive caution in their financial estimates. The circumstances, however, made a certain amount of financial heresy permissible.

The Financial Year.

The adoption of the calendar year would, in many ways, suit India better than the present fiscal year.

Loan of Balances.

He personally disliked the idea of lending Treasury balances in India since this might encourage Banks to reduce

pró rata their own provision of funds and because the duty of judiciously loaning the balances was hardly one that a Government Department could efficiently carry out.

The Paper Currency Reserve.

The Paper Currency Reserve being a trust fund the Government of India were not justified in loaning or using it for any other purpose than convertibility into currency notes.

Secretary of State's Drawings

He hoped that the Secretary of State would refrain from large drawings on Councils when the exchange was below 16 pence. He should not draw money belonging to India to benefit trade and keep it permanantly as an investment in London.

The Gold Standard Reserve.

The Government of India wished the Gold Standard Reserve to be built up without reference to any definite maximum, though they accept thirty millions as the present maximum, to be increased as the balance of trade altered.

Location of Reserve.

The Government of India desired that ten millions should be held in actual gold but were no longer apprehensive for a located reserve in London. He personally thought it was unquestionable that it should be located were it was required for the settlement of international balances.

The Government of India *would not object to a statutory description* of the Reserve and its purpose. He suggested the Paper Currency Reserve should be held forty per cent in rupees,

twenty in gold, thirty in permanent security and ten in temporary investments.

Question of Amalgamation.

The Government of India had not considered the question of amalgamating the two Reserves, and would greatly dislike any confusion between their distinctly separate purposes.

The Gold Mint Proposal.

The Government of India were *in favour of a gold mint to substitute the genuine circulation of gold for hoarding*. It would meet with a strong and reasonable sentiment in India and would be a *great covenience to the masses in hallmarking gold hoardings.*

It would be a *definite step in popular education towards a better system of currency.* The Government of India asked that in view of very large experience and very considerable success in minting in India it would be a graceful thing for the Treasury to relax the conditions hitherto imposed and allow India to coin sovereigns under any supervision and subject to any assays and periodical supervision the Treasury might impose.

The State Bank.

During his time in the Financial Department, the Government of India did not regard the State Bank as within the range of practical politics. Before expressing an opinion now he would ask for the fullest opportunity of consultation with commercial opinion.

He summarized a Note from Sir William Meyer, stating that if the various manifest difficulties could be overcome he would welcome a State Bank.

There were various reasons including mitigation of political objections to the entire management of the Banking of the Government of India by a close bureaucratic corporation and the Government of India would require strong representation on the directorate.

Redundancy of Rupees.

The Government of India earnestly denied the accusation of having produced anything in the way of redundancy of rupees. Having regard to the changing economic conditions he entirely agreed that the coinage of silver should not be ahead of requirements.

India Office and Indian Government.

There had been differences of opinion in the past between the Government of India and the India Office, but misunderstandings had now very largely disappeared. The authorities were working in remarkably harmonions co-operation which was partly due to better personal acquaintance and partly to a more extended system of non-official explanatory correspondence supplementing despatches.

Mr, Pandya.

Mr. Pandya (Madras) strongly advocated the enconragement of gold circulation in India to replace fititious rupees and recommended gold coinage and gold notes.

Mr H. S. Reed.

Mr. H. S. Reed urged that larger discretion in financial matters should be vested in the Government of India subject to the complete control of the Secretary of State. He argued that this did not involve great legal and constitutional changes.

The surplus revenues would not be devoted to capital outlay but to the raising of the whole standard of administration pursuing a policy of continuous amelioration with a wider variety of conditions. Substantially large loans could be raised in India provided they were accompanied by a referm of the system of Treasury management.

The Balances of the Government of India over and above their prescribed working balance and the budgeted demand of the Secretary of State should be automatically released for lightening the money market. Balances should be lent solely through Presidency Banks. From his experience as Director of the Central Co-operative Credit Bank, Bombay, he thought that the resulting easing of the money market in a busy season which had a tendency to extend its duration would reach all classes including culivators accustomed to borrow on reasonable credit.

He wished to see the whole profits from coinage and the whole interest from the invested portion of the Gold Standard Reserve automatically accrue thereto, and the *entire amount of Reserve be liquid gold held in India and brought under statutory control by an Act of the* Supreme *Legislature.*

The policy pursued with regard to the Reserve had weakened confidence which could best be restored by Indian location.

He strongly advocated a gold currency, because it would *reduce the liability* of the Government of India and do away with the artificiality of the present system, substituting something more automatic and be a secondary buttress to exchange.

The Government of India *should actively stimulate the circulation of gold and notes.* He urged that on the Finance Committee of the India Council, the Government of India, the Presidency Banks and Indian commerce and industry should be represented.

The idea of forming a Central Bank by amalgamation of the existing Presidency Banks was impracticable. *A state Bank must be a separate institution under the Gevernment of India with the headquarters at Delhi*, so that the Directorate could include one of the highest Government of India officials.

Council drawings should exceed the Budgat Estimates only in special cases and then only by a *supplementary* Budget of the Supreme Legislature.

Lord Inchcape.

Lord Inchcape stated that lending to joint stock banks when the balances were exceptionally high was made at his suggestion when Chairman of the Finance Committee. He did not favour the appointment of a whole-time official as broker who would require a big staff and would not be so closely in touch with market movements as a man like Scott.

Nothing would be gained by limiting the sale of Council Bills to the immediate requirements of the Secretary of State.

He was not in favour of locking up a larger proportion of the Gold Standard Reserve in metal, because in this as in

other matters he was anxious to take care of the Indian revenues.

He strongly urged the Commission to leave the State Bank alone. He also *opposed gold minting*, declaring that India already *practically possessed a free coinage of gold.*

Sir F. Schuster.

Sir Felix Schuster *concurred* with Lord Inchcape concerning the efficiency and ability of India Office officials. With reference to lending to Banks the broker was instructed not to accept the rate of Sir Felix Schuster's Bank unless he were satisfied that it was the best obtainable. He saw no invidiousness in the position of City Members of the Committee having to decide on the distribution of balances as between India and Landon. However desirable it might be to have Indian experience on the Cmmittee, it must always be remembered that all its members were there for Indian interests alone.

The hands of the Secretary of State should not be tied in making appointments.

He did not think that the Committee ever had difficulty in getting the necessary evidence and experience of Indian conditions to judge the question. He *deprecated the esiablishment of a gold mint* and State Bank and the amalgamation of the two Reserves. The Gold Standard Reserve should be increased without the present limit—one third held in gold—and located in London.

Mr. Dalal.

Mr. Dadiba Dalal urged a system of regular purchase of silver for coining by the Government of India in Bombay instead of purchasing in London.

Sir C F. Wilson.

Sir Fleetwood Wilson was in favour of making the financial year the calendar year. He dwelt on the difficulty of the position of the Finance Minister owing to his being debarred from demi-official communication with some one in the India office. If they had on the India Council someone in nearly an analogous position to that of the Finance Member of the Viceroy's Council and they were allowed to communicate freely with each other, *neither the Finance Committee* nor the State Bank would be required.

Mr. Abrahms.

Mr. Abrahams, recalled, said that the organisation of the India Office as regards the higher members of the permanent staff should be based on a recognition that the work of his office fell roughly in two halves one administrative and general and the other for matters of business nature. One of the two higher members should be regularly charged with the supervision of financial or business work.

This happened to be the position at present, but there was nothing to secure its permanence.

Answering Mr. Keynes, he said he was much attracted by the idea of bifurcating the work of the Finiancial Secretary having one official for technical and financial work and one for Treasury control.

Sir. W. Holderness.

Sir William Holderness said a city member of the Finance Committee *must be retained*, but under the reorgnisation, scheme, there must be a Member thoroughly acquainted whith Indian financial administrative systems. He would be FinancialMember of Council in the sense of supervising all financial business coming before the Council and advising the Secretary of State thereon.

He recognised the obvious objections to differentiation in the terms of appointment and emoluments of Members of Council, but said the objections would lose their force if the Commission considered that radical alterations were required in the composition of the Council with the object of improving its financial efficiency.

If the Commission made proposals for increasing the business of the permanent establishment in financial business, there would be less occasion to create a special post in the Council to secure a Finance Member of exceptional capacity and energy.

Gold Currency and a Gold Mint

The evidence on the question of a Gold Currency and Gold Mint for India :—

The opinion of the Government of India on the free coinage of gold by establishing a mint in India is contained in paragraph 22 of the Despatch to the Secretary of State. Whilst disclaiming any idea that the coinage of gold in India will be a panacea for all Indian Currency ills, the Government of India added, "Indeed we do not imagine that its influenc

will be greatly felt at first; but such a measure *will mark a step along the path which has been authoritalively accpted as the line on which our currency policy must develop, and in time it will be of great assistance in maintaining the stability of our currency system.*" This argument of the Government of India did not appeal to Mr. Lionel Abrahams as convincing, since it overlooked the fact that Indian exchange tends to fall because India is a debtor country. If trade went against her, she found a difficulty in paying her debts abroad. If she had a gold currency, she might have to export her currency if the holders of it were willing to let it be exported; but if she did that, there would still be the fall in exchange that there was at present. In Mr. Abrahams' opinion, a fall in exchange cannot be prevented by exporting currency.

He stated that the existing arrangements secured a stable exchange between India and the gold-using countries without the existence of an extensive gold currency in India.

He thought that people in India, like people elsewhere, should have the opportunity of acquiring gold money if they wanted it and that India should arrange her currency system in accordance with the wishes and convenience of the people concerned without thinking too much of the wide-reaching economic effects.

Mr. Abrahams said that there was a gold currency in existence practically up to the requirements of the people and the Government gave all the encouragement it could, to put into circulation such gold as it possessed. The obstacle to gold being more largely used as currency was not in his opinion,

that the *Government of India failed to encourage it,* but that the people of India preferred other forms.

Mr. Abrahams indicated that his general position was that in the matter of gold, it was better to increase the reserves than the gold circulation. His view was that an addition to the gold currency at the expense of the gold standard reserve would make exchange less stable.

Regarding the suggested 10-rupee piece, Mr. Abrahams thought that it would be *cheaper to coin it* than sovereigns and it should be of the same fineness as the sovereign to enable exchange by weight. He doubted the popularity of the 10-rupee piece, when the half-sovereigns were not able to become popular.

Questioned whether the Treasury objections would apply equally if an Indian mint were to coin a special gold piece, not sovereigns, Mr. Abrahams stated that the *Treasury, in that case, would have no jurisdiction.*

Regarding the gold mint for India, Mr. Abrahams expected very slight advantages from it. Coins other than sovereigns could be minted there, but sovereings could be imported freely to a great extent.

Sir Shapurji Broacha elicited from Mr. Abrahams that bullion would not be sent to India for coinage at the Indian mint from abroad, as such a course would be economically unprofitable after covering freight and loss of interest and the Indian mint would have very little business to do.

The two objections to the opening of a gold mint in India were, in Mr. Abrahams' opinion, first, that *if it were for so-*

vereigns, it would be very costly, and secondly, that it might *by its failure to attract a large amount of gold for coinage*, wound that very popular sentiment that it was intended to please.

Mr. O. T. Barrow regarded gold as a wasteful form of circulation, and did not desire to circulate as much gold as is possible in India. It was impossible, in his opinion, to estimate the amount of gold that would go into currency and as ornaments or into hoards. The use of the gold currency in India, he stated, would increase the drain of gold from Europe, unless gold for it was got out of the Indian hards.

He emphatically stated that a gold mint for coinage of sovereigns in India was unnecessary and that it was absurd to import gold to coin it in India. The amount of gold that would come from the Indian supply was no small that it would not be worth while to establish a mint in India. However such a mint might be tried if a special coin were introduced, but he did not advocate its introduction.

Mr. Bhupendra Nath Mitra desired the encouragement of a gold currency as there was *evidence that gold was replacing silver in circulation in India at present.*

Mr. Mitra advocated a gold mint for India for the reason that it would help in the maintenance of the gold exchange standard to have a larger circulation of gold in India, and would indicate to the public at large that the Government was certainly earnest in its endeavour to foster gold circulation of the country. It would also attract to the mint the amount of gold produced in the country itself, and this amount would be turned into sovereigns there. He proposed a charge for refining

the gold, but nothing in the way of seigniorage. He advocated the coinage of sovereigns, the coin of international trade, He thought that gold would probably come from hoards, if a mint were established, in times of stringency, as also the local gold. He considered the *establishment of a mint almost a necessity*.

Mr. Alfred Clayton Cole stated as his opinion that the amount of gold in circulation would not be affected by a gold mint and that, if established, it would coin local gold and possibly gold from South Africa. Gold would not be sent from London if coinage charge, exceeded cost of frieght, etc., and of coined gold. Mr. Cole did not think, as far as England was concerned, that *a special Indian coin would make any difference in foreign exchanges, because gold was not taken at its face value in international markets: but by its weight and fineness*. He was not personally opposed to a mint coining gold in India but so long as sovereigns were taken for the currency, local minting seemed to him unnecessary. But if a mint were set up, sovereigns should be coined.

Mr. L. G. Dunbar knew no demand in India for a gold currency and thought that it was not required considering it as a wasteful and expensive luxury.

It did not matter very much to James N. Graham whether a gold currency was established, but he would like to see it so far current as one would be enabled always to change a gold coin.

He recommended the opening of a mint for the free coinage of gold as a a matter of public convenience. Any one

who had gold bullion in any shape might go to the mint and get it coined. Sovereign or a coin identical with it in weight and fineness should be coined in it.

Sir Daniel M. Hamilton advised the Government to discourage the use of a gold currency and his objections were general such as pertained to all countries. He objected to the establishment of a gold mint in India.

Mr. H. F. Howard expressed himself in agreement with the argument that *a gold currency would decrease the liabilties of Government for redemption of rupees.* He had not in view any special steps for the encouragement of gold currency.

An increase in the gold circulation, in Mr Howard's opinion, would possibly be of advantage *in preventing the rise in the word's prices.* He stated that the reserves kept by the Government would cease to increase by the extended circulation of gold. He did not think a gold currency a necessary concomitant of the gold standard, but stated that all endeavours should be made to meet any demand for gold that there might be on the part of the public. He did not suggest the extentsion of gold at the expense of the note circulation. He thought that the rupees might be interfered with to some extent and that the 10-rupees priece, if coined, might compete with the 10-rupee note more than the sovereign might do.

He advised the creation of a gold mint for the coinage of sovereigns and thought it might be conveninent to pass the gold obtainedf rom the Indian mines through the Indian mints.Bullion and ornaments might be attracted from the hoards and, in any case, he suggested that the experiment should be tried. He

stated that seigniorage should not be charged on the coining o sovereigns.

Mr. W. B. Hunter maintained that gold was a wasteful medium of circulation and that gold in reserve was infinitely more valuable for the stability of the exchange than any amount of gold in circulation.

He saw the advantage of a gold mint theoretically and thought it was reasonable that the holders of precious metal should be enabled to turn it into the coin of the realm and in India especially in times of scarcity those that hold gold should be able to convert it readily into coin or its equivalent. He suggested a probable difficulty in obtaining bullion for coinage and said that it would do to issue rupees in exchange for receipt of gold.

Mr. F. C. Le Merchant mentioned that the *sovereign is in increasing use as currency in an effective manner in the Punjab, Northern India and Bombay.* There were fluctuations in the extent of the use of gold currency in the different parts of India and he would not ask the Government *to press the circulation of gold.*

He attached little importance to the creation of a gold mint and thought that the special Indian coin, if minted, might conflict with sovereigns. The 10-rupee gold piece would not be available for exportation on favourable terms, but only would be taken over at its pure gold value, or, may be, slightly above ; *it might, moreover, compete with the 10-rupee currency note.*

Mr. Charles Campbell McLeod did not advise the creation of a gold mint at present, but stated that, if established,

sovereigns should be coined. He anticipated difficulty in obtaining bullion for coinage. His objections to the coining of a special Indian coin were those of the Bengal Chamber of Commerce which thought that for a long time to come an *Indian coin would have to be treated as bullion when exporting* which, in their opinion, was a *convincing argument against the coining of a special Indian coin.* The 10-rupee piece would tend to *destroy the standing of the sovereign* and would be used for ornaments and hoarding.

Sir Alexander McRobert thought it advantageous that the people should use gold as currency, because it was more portable than silver and was the *standard of value throughout the world.* He stated that the *small man—the workman believed in metallic currency.* He did not advise the coining of the 10-rupee piece as there would be *some inconvenience* in having the sovereign and a ten-rupee gold coin circulating side by side.

He advocated the establishment of a gold mint from the point of the view of prestige and sentiment and believed that it would justify the cost.

Mr. F. W. Newmarch stated that the amount of *gold in circulation is increasing* in India and *desired the encouragement of the same.* He did not see how the Government could encourage it or discourage it except by allowing gold to go in the ordinary course of trade. The Government liked gold to be better circulated in India, but did not wish to press it upon the people.

He thought that the institution of a mint would greatly increase the supply of sovereigns in India.

Mr. Marshall F. Ried opined that it was not wise to give gold coinage and circulation as prominent a place as was sought to be given recently. He feared in them a real evil in the encouragement of hoarding. It was not desirable to replace gold coins in place of currency notes and gold currency, in his opinion, was wasteful when compared with other methods and not as useful for the support of exchange as gold in reserve.

Mr. Harry Marshall Ross objected to the forcing of gold on India, and stated that the Government should not encourage gold currency. But, in his opinion, gold should not be objected to, if people really desired it. He considered other forms preferable to a gold currency.

He was of opinion that a gold mint might be advisable if it was un-expensive. He objected to the 10-rupee piece on the ground that it *might check* the circulation of the 10-rupee note.

Mr. Thomas Smith said that the circulation of gold was increasing in India, especially in the Punjab and *desired* the *encouragement of it in the interests of the people.* He preferred the advancement of the note circulation but stated that the *people should bc given gold when they desired it.*

He advocated the creation of a gold mint for the conversion of gold that might be hidden or absorbed now. There were times, he said, when it *might be more expedient to import bullion and have it coined in India.* He stated that sovereigns should be coined.

Messrs. Toomey and Fraser did not think a gold mint necessary at present but if one was opened in future, sovereigns

should be coined there. They stated that gold imported from abroad would not go to the mint for coinage at normal times, because it would be cheaper to import sovereigns. Gold would not be attracted by the mint from the hoards and gold from the local mines would be the only source in the ordinary way to which the mint could look to. They stated that as a general rule it would be cheaper to import sovereigns than take bullion for coinage in the mint.

Mr. M. De P. Webb considered gold currency essential to a proper currency system and advocated its encouragement by the Government. The Gold Standard Reserve *would be unnecessary with the establishment of an effective gold currency.* The increase in the gold currency would result in the decrease of the note and the silver circulation. Circulation of gold would increase and he anticipated the increase of gold in the Paper Currency Reserve. It was not likely, he stated, that rupees would fall to a discount and no steps, in his opinion, should be taken by the Government to check gold. He did not intend that a gold currency should involve the obligation to give gold in exchange for rupees.

He advocated the opening of a gold mint at Bombay for the free coinage of gold and though that money would be attracted from hoards in times of danger and emergency. He said that the produce of Indian mines would be tendered for coining. He was of opinion that no seigniorage should be charged on coinage and the sovereign or a coin identical with it in weight and fineness should be coined.

Mr. Sundara Iyer did not consider a gold currency practicable and did not advocate increase of the circulation of gold. He

thought that neither notes nor rupees were likely be displaced by gold. He doubted the popularity of the 10-rupee piece, if coined.

He also doubted the advantage claimed for a gold mint that it would largely increase the gold currency and stated it would do to have the gold standard with the gold reserve.

APPENDIX—E.

The Report on Indian Finance and Currency in Relation to the Gold Exchange Standard.

BY PROFESSOR J. SHIELD NICHOLSON

The reports by various commissions of inquiry appointed at various times by the British Government contain some of the most valuable materials for economic study in existence. The value to the economist is not diminished, even if the final conclusions of the reports may not be adopted. The report of the Royal Commission on Indian Finance and Currency is a very able document and, with the corresponding evidence, gives materials of the highest interest at the present time for the student of the principles of monetary theory and their practical illustrations in the most modern forms. A large part of the Report is *substantially in accord with the treatment* by Mr. J. M. Keynes in his recent book on Indian Currency and Finance, and the reader of either may be strongly recommended to read the other.

1 *Final Report of the Royal Commission on Indian Finance and Currency*. 1914. [Cd. 7236.] Price 9*d*.

In my opinion, however, there are *omissions* both in the book and in the report which are of the *first importance* in theory and in the future may be of vital importance in practice. The practical side of the issues I wish to raise is dealt with in Sir James Begbie's note of dissent, and I shall treat of the same difficulties with reference to the relative economic principles and former cases of practical importance.

This paper is mainly concerned with the *ulterior and cumulative effects which seem probable if the present system, even as modified in the Report, is continued.*

The admirable history of Indian Currency since 1893 given in the general report shows at once that in all the various changes the dominant force, whether in initiation or modification, has been the stability of the foreign exchange value of the rupee in relation to gold. From the beginnings of the depreciation of silver after 1873 the Indian Government was truobled with the instability of the gold-exchange value of the rupee, and British trade with India was also troubled with it. One of the principal arguments of the bimetallists was that the fixity of the ratio of silver to gold would also fix the gold value of the rupee, with consequent general advantage to trade, to the investment of capital in India, and to banking as well as to the Government. By 1893 the attainment of stability of exchange (or at least a check to a further fall) to the Indian Government seemed necessary, and to the British *trader very desirable.* The Indian mints were closed to the coinage of silver, and since 1898 the policy pursued has been successful in maintaining the normal gold value of the rupee at 1*s.* 4*d*.

The Report, in its final summary of conclusions, sec. 76 (p. 20), says that "*the cardinal feature of the whole system is the absolute security for the convertibility into sterling of so much of the internal currency as may at any moment be required for settlement of India's external obligations.*"

No one will dispute that this fixity of exchange is in itself advantageous and especially advantageous to the Indian Government. But the question arises : Does it follow, because the stability of the gold price of the rupee has been established for the purposes of foreign exchange, that *therefore it may be taken for granted that all the other functions of good money are fulfilled by the rupee as so "managed"?*

What are the primary functions of a good system of money? The first is to provide a *medium of exchange*, not mainly for foreign payments, but for the *pnrposes of internal trade and industry*. The first requisite from this point of view is that the money shall be *universally accepted, hence the importance in the early stages of development of the commodity value of money*. Even in the latest stages any difficulty in testing or any want of confidence at once so far limits the acceptability. We have numberless instances of *imperfect acceptability* in the incubation period of the depreciation or debasement of different forms of currency. In the extreme case of the depreciation of inconvertible notes the acceptability may vanish. *Between this extreme of non-acceptability and the other extreme of instant universal acceptability there are infinite gradations*, and we have an excellent example of the enconomic principle of continuity.

The question, then is this : *Is this artificial* rupee *as acceptable to the people of India as was the old rupee, which was of*

the same value as the metal of which it was composed? Have the masses of the people of India reached the stage at which the commodity value of the money is of no importance? The answer of Sir James Begbie is definitely to the contrary: " . . . . the recent demands for gold in India show a loss of confidence on the part of the public in the token rupee. . . . The need for confidence to secure the exchange value of the rupee is recognised, but not the need for confidence in the currency in other respects." (Report : note by Sir James Begbie, p. 88, par. 5.)*

The next requisite of a good medium of exchange is that it should be readily adapted to the demands of trade : the volume of the actual currency should be capable of automatic increase or decrease. Such automatic adjustment is most nearly attained when the *principal currency is interchangeable at once* with the corresponding metal. Such was the old system of the rupee under the silver standard. Such is the system of the currency of the United Kingdom as regards gold, notes, and cheques. But even in the United Kingdom. There are occasionally difficulties. At one extreme, for example, as regards the small token coins, we hear sometimes of the scarcity of farthings. At the other extreme, before Goschen's Act for the gold recoinage (1890) the banks had begun to feel the difficulty of getting rid of the light-weight gold coin. The *preliminary stages of depreciation had begun*, and even in England the automatic adjustment of the gold coins was threatened.

In the case of India this point is best taken in connection with another of the principal functions of good money, namely, that it should provide a *store of value.* The earliest form of

*See Appendix C, page xix.

saving is in hoarding the precious metals. India, as regards a large part of its population, is still dominated by primitive ideas of hoarding. "The hoarding habit in India is no doubt a difficult problem. Its recent rapid development in increased demands for gold and the possibility of its further expansion make it a question of the highest importance." (Note by Sir James Begbie, Report, p. 89, par. 10.)*

Under the old system the metallic value of the rupee was the same as its nominal value. A native would hoard rupees, or turn his rupees into ornaments, as it suited his convenience. Under the present system, if a native hoards silver he does not know what the value may be later on in rupees. *If he hoards gold he believes he will get the fixed amount of eupees. Therefore, he prefers gold to silver. He also prefers it to token rupees.* There is an alternative use for gold, and according to Gresham's law it is withdrawn from circulation and absorbed in hoards in preference to rupees. In the opinion of Sir James Begbie, this hoarded gold is not so readily released as was the silver formerly. The confidence in the rupee has been partly lost. Statistics show this later reversion to hoarding on an extended scale is a retrograde movement.'

It must be remembered that the rupee, like any other form of token money, can only be kept at a fixed value as regards gold by the use in some form of the principle of limitation. For the first seven years after the closure of the mints to silver for private coinage there were practically no new issues. The deficiency was in part supplied by the release of

*See Appendix C, page xxii.

rupees from hoards and by importation from outside. So long as these sources of supply were available, the principle of limitation did not have its full effect.[1] In consequence the rupee failed to maintain the 1*s.* 4*d.* value, and fell at one time to 1*s.* 1*d.* After stability had been attained in 1898, the needs of more currency, as shown by the difficulties of moving trade and the stringency of the Indian money markets, led to the issue of new rupees by the Government. Since 1900 these issues have been very largely increased, but not so as to threaten (except, perhaps, in the crisis years of 1907-8) the gold price of the rupee.

The point is that the amount of rupees coined depends partly on the demands for remittance in London, partly on the offer of gold in India to be converted into rupees. and partly on the estimates of the Government as regards Indian requirements for trade or banking.

But the amount issued is not automatic, as under the old system. The vast volume of the Indian currency is now a "managed" currency.

The Report notices this objection that without gold in active circulation India's currency must remain a managed system, with the implication that a managed system is a bad system (sec. 66, p. 18). The passage may be quoted in full: — "The ideal with which this managed system is contrasted seems to be the system of the United Kingdom, where fresh supplies of the only unlimited legal coins, the sovereign or

1 This possibility was foreseen by the present writer in an article entitled "The Iudian Currency Experiment" in the *Contemporary Review*. September, 1893. Republished in *Money and Monetary Problems*

half-sovereign, can be obtained by anyone who takes gold to the mint for coinage. Iu our opinion this contrast is of no value. There does not appear to us to be *any essential differeence betweenthe power to import sovereigns at will and the power to have gold coined into sovereigns in India.* The *only* [the italics are mine] point of the criticism that India's currency system is managed in a sense that is not true of the currency of the United Kingdom lies in the fact that the rupee is a *token* passing at a value above its intrinsic value, and at the same time is unlimited legal tender. It is true that it is not practicable even to consider the limitation of the amount for which the rupee is legal tender. In this sense, therefore, the system must remain a *managed* one. But we demur altogether to the idea that because it is to this extent a managed system it must be a bad system. It is not, in fact, possible for the Government of India to *manipulate the currency for their own ends*, and they cannot add to the active circulation, *except in response to public demands*."

The difference between the power to have sovereigns coined and the power to import them is *not always quite so negligible* as is shown by the famous case of Australia after the discovery of gold (in the absence of a mint). The market price of gold in South Australia is said to have fallen to 45*s*., and in Victoria to 60*s*., as against the Mint price in London of £3 17*s*. 10*d*. But at present this side of the management is of comparatively small importance compared with the "*only* point of criticism" noticed immediately after. The rupee is a token of unlimited legal tender, and not only so, but taking the country as a whole, it is the principal medium of exchange, as well as being in effect the standard of value. Gold is used and notes are used to a certain

extent, but the rupee is still king, though his monarchy is more limited than it was.

The answer of the Report to this objection is singularly meagre. We are told first that the Government cannot manipulate the currency for their *own* ends. But the basis of the whole system, as shown in the historical introductien, is that the Government adapts the system so as to secure stability of exchange for its own convenience. The mints were closed to raise and maintain the exchange, and the complex arrangements for keeping a reserve, and the nature and the *locale* of that reserve, have all been guided by the ends of the Government. So long as the rupee maintained its value in gold payable in London, *the rest of its monetary functions were either not considered at all, or were supposed* to follow, by some kind of pre-established harmony inherent in the gold-exchange standard.

Next, it is assumed in the Report that so long as the rupees are issued not for the immediate profits of the mintage, but in *response to public demands,* there can be no difficulty in the management. The central difficulty is that at any particular time the public demand *may seem* well founded and the new issue *may seem* desirable, but the method of new issues is only one side of the question of management. There remains the management of withdrawals or of contraction in case of need. If rupees in India *could be converted to in gold in India without any difficulty or postponement,* then the contraction of the currency wouid be automatic. In fact, *the ruppe would be, like a bank-note, convertible immedately into gold. But the very essence of the gold exchange standard is in showing "some degree of unwillingness to supply gold locally in exchange för*

the local currency, but a high degree of willingness to sell foreign êxchange for payment in local currency at a certain maximum rate." (Keynes, *op. cit.*, p. 6.) This difficulty of the conversion of thc local currency into gold makes the rupee correspond, so far, *to an inconvertible*, and not to a convertible, note. It is ture it is not absolutely inconvertible, but, as already observed, there are *all degrees of inconvertibility*. In the development of Scottish banking there were some interesting cases of deferred or suspended convertibility which helped to make Adam Smith a non-free trader in banking. In the case of India there may be a considerable cumulative increase in the circulation before the method of partial convertibility adopted comes into effective operation. In general the balance of trade is in favour of India, and so long as this favourable balance exists the volume of rupees can be increased.

In a very able critique of the Report by Mr. F. C: Harrison (*Quarterly Review*, April, 1914), which appeared after this paper was written, it is said: " At present there is no real distinction between the rupee and the note. Both are liabilities of the Government to be kept at a parity with gold. One is a note printed on silver, the other a note printed on paper." This identification of the rupee with a convertible note leads to curious consequences. In India the lowest denomination of the note is five rupees—why not one rupee? Why go to the expense of printing the one rupee note in silver? Why in most countries is the lowest denomination of note so high relatively to the highest tokens? The answer to these questions involves *inter alia* an answer to the old questions. Is an over issue of convertible notes possible? Ana is the

danger specially great if the notes are of very low denomination.

As the result of prolonged controversy, it became clear that over issue might mean relatively to the reserve, or over issue so as *to promote or aggravate an inflation of prices on account of the de-facto suspended convertibility of small notes.* What is the amount of the *reserve held in India against the rupees actually in circulation,* apart from what is supposed to be necessary to support the notes and the foreign exchange? In the proposal for a central bank, submitted by Mr. Keynes (Annexe to the Report, p. 69), it is laid down that only up to forty per cent, of the gross circulation should be held in a fiduciary from without tax, the balance being held in cash (gold or *rupees*). Obviously, if the rupee is itself a note printed on silver, *it cannot form a reserve for the conversion of rupees,* and if a corresponding *proportion of the gold is to be held* against these notes printed on silver, that would mean *over £60 millions of gold for this purpose* (taking the circulation of rupees as 160 millions of crores [Mr. Harrison])... Mr. Harrison faces the difficulty, though he thinks 30 per cent, in gold against the notes (whether printed on silver or paper) would suffice, but he remarks: "The India Office has never appreciated the *fundamental difference between holding gold and holding securities.*', In Mr. Keynes' scheme the fiduciary issues of notes may be increased up to 60 per cent. On the payment of a tax—but not beyond—but in the excessive issue of rupees there is actually a profit of most of the difference between ten-pence and sixteen pence.

Again, the Government is not legally bound to give gold for rupees in India, though in practice it has made the offer in

recent years, and in the case of recognised specific depreciation and the presentation of large quantities it could not do so. The suspension of the English Bank Charter Act does not mean that the *notes become inconvertible*, but simply that the fiduciary issues of the Bank may be increased beyond the cast-iron limit. The *suspension of the offer* of the Indian Government to *give gold for rupees in India when asked for would make the rupees de facto inconvertible in the strict sense of the terms.*

At this point it is convenient to bring in another function of money, namcly, as a *standard measure of values.* As already observed, in India as a whole the rupee is still king, and all prices are estimated in rupees, and not in gold. The ordinary native of India knows no more about the gold-exchange standard than the ordinary Englishman knows about the mint price of gold or the possible differences between the mint and the market price. If a monetary system is sound, this is the ignorance of the healthy man who knows nothing of the anatomy or physiology of his own body. It is bad thing for a country when *the masses of the people begin to feel that something is wrony* with the currency.

As regards the *possible effect* of the gold-exchange standard *on general prices* in India, the report seems to be absolutely silent. And yet it is precisely this aspect of the monetary standard that has lately attention attracted all the world over· Every-where there is an outcry against the rise in the cost of living. The rise is complained of in all the countries with the gold standard. The gold standard is no security, as the last

forty years have shown, against general movements of prices, down or up.

Since 1900 there has no doubt been a great rise in general prices in India, and if India had had in every respect precisely the same standard and currency as in this ceuntry, a rise of prices must have been expected.

But the question of importance is whether the present system in India (which is not that of the United Kingdnm) is *likely to aggravate* the rise in prices.

As already shown, the *rupee nas only ân imperfect or impeded convertibility*. Accordingly, the connection of the rupee with general prices is best seen by taking the case of inccnvertible notes. Such notes have been issued sometimes for a considerable period without any depreciation, but in most cases (owing to this very difficulty of management,) depreciation to a greater less extent, has taken place eventually, and there is always the fear of depreciation.

It is important to distinguish between the *specific* depreciation of notes as regards gold, and their *general* depreciation as regards commodities. The premium on gold is not always the exact measure of the depreciation of the notes as regards commodities.[1] That is to say, the purchasing power of the notes *qua* commodities may be greater or less than is in dicated by the depreciation as regards gold. There ir no doubt a connection between the *specific* and the *general* depreciation, but sometimes the divergence is considerable.

1 The general argument is too long for introduction in this place. Cf. My *Principles of Political Economy*, Vol. II. p. 128, Bk. III., Ch. XV., sec. 4.

In the same way, though the rupee remains at the par of the gold-exchange standard, *its general purchasing power may have fallen.* Prices in terms of the local currency will depend (other things being the same) on the *quantity of that currency.* If the quantity is only slowly increased (in proportion to the work to be done), the cumulative effect of new additions will be so much longer postponed. *But if the means of contraction ór withdrawal are inadequate ; if ihe convertılity is only pârtial or suspended, then in time, if new additions are continued, the cumulative effct must operate.* General rupee prices *will rise,* and after a certain point is reached this *general depreciation may lead to specific depreciation, in spite of the large reserves held to support the foreign exchangé* (especiaily if a great part of these reserves *is documentary and not in gold*),

In such a countary as India, with very imperfect credit and banking, and with an immense area and population, it is plain that additlons in the currency operate more directly on prices than in modern Western countries. No doubt an increase in quantity will take longer to work out its general effect, and conversely any contraction such as will effects general prices will also take longer. Says Mr. Keynes : " So long as the rupee is worth 1*s.* 4*d.* in gold no merchant or manufacturer considers of what material it is made when he fixes the price of his product" (*op. cit,,* p. 12). True: but suppose that the method of keeping *up this price of the rupee leads* to a *great and continuuous increase in the quantity.* The method may be quite successful, at any rate for a time, as regards the 1*s.* 4*d.*, but if the quantity of the rupee is increased general prices, so far will rise.

In this connection a reference may be made to the period of the Bank Restriction in England (1797—1823), when the Bank of England was restricted from giving gold for its notes on demand. The principles of the case have been well brought out by Bagehot in his "Lombard Street." The essence of the history is simply this:—For the first ten years the notes, though inconvertible, remained undepreciated as regards gold. Apparently, the directors had acted' in the soundest manner. Yes, says Bagehot, when they came to give the reasons for their action they have become classical by their nonsense. They applied, it is true, a principle of limitation that seems natural enough. They only made advances in terms of notes for the *bona fide demands of trade*, and at a high rate of discount. They thought in this way the demands for currency were fairly indicated, and that, therefore, there could be no depreciation But they forgot the cumulative effect. None of the notes being withdrawn or sent abroad, in time the quantity became too great, prices rose, and, *inter alia*, the price of gold. Whether the rise was in both cases exactly thc same, is an old and interesting question, precisely that old question of the measure of depreciation.

In effect it would appear that the method of limitation now adopted as regards the issues of the token rupee is the same as that adopted by the Bank of England in the Restriction. So long as the rupees are issued only in response to a supposed, real effective demand, it is thought that there can be no depreciation (see Report, p. 19). Tne specific depreciation as regards gold may be guarded against or provided for by the devices used for the mintenance of parity, but in the course of time the rupees in circulation will accumulate, and after a

certain point a rise in prices must follow. In the case of India, with its favourable balance of trade, the rise in prices must no doubt be considerable before the parity of the rupee will be affected for foreign exchange, but in the meantime India suffers from the beginnings of a general depreciation. And in the end, as already observed, even specific depreciation may take place, especially if the raserves held are in the main documentary and not actually in gold.

This paper began with the statement that the Report failed to give adequate consideration to certain aspects on Indian currency that in the course of time might prove to be of grave concern. In conclusion, the omissions and the possible evils may be briefly summarised.

The leading idea in the criticism offered was to refer to the primary functions of money. Owing to the necessary inter-connection of these functions, a treatment of any one involves a reference to the rest.

As regards the function of money as a *medium of exchange*, the Report, following the practice of the Government of India for the last twenty years, considers the rupee mainly from the point of view of foreign exchange. It considers the means by which the stability of the gold-exchange value of the rupee may be safely and most economically secured. It seems to be taken granted that if only this stability is maintained it makes no difference to the peopel of India if their principal metallic currency is token money. The opinion of the 1898 Committee that the gold standard should be gradually made effective by the use of more gold as currency is discarded; it is argued that to support the stability of foreign exchange the gold would be much more

useful massed in some banking centre, the preference being given to London. The ready interchangeability of the coins with the corresponding metal within the country (which, under the old system, was so convenient) is passed over as of no importance.

The function of money as *a store of value* is emphasised in connection with the accumulation of gold to be used in case of need to support the gold-exchange value of the rupee, but the more primitive form of the *stôre of value* in the native hoarding is neglected. The native can no longer hoard silver; he has not the same confidence in the rupee as a token; therefore, he hoards gold, and he is less willing to part with this gold when there is a difficulty placed in the way of getting it back. With regard to the function of money as a *standard measure of value* (including *deferred payments*), it seems to be taken for granted in the Report that if the rupee is only linked to gold for foreign exchange, its value or general purchasing power must conform to that of gold as determined by the world's markets and the world's banking. It seems to be thought that it can make no difference what its intrinsic value of the rupee may be. If, however, the rupee ought to be regarded as partaking of the nature of an incon-vertible note, this simple relation will not hold good.

But so far as the rupee is like an inconvertible note, so far it is subject to the same limitations or liable to the same dangers. In particular there is the danger (unless the volume is strictly limited) of a genaral rise in prices. If water flows into a reservoir in greater amount than to the extent of all the withdrawals, the level will rise, though, of course, it would rise more quickly if there were no means of withdrawal. As a matter of fact there has already taken place in India a great

rise in rupee prices. The extent and the nature and the causes of the rise are open to controversy, but, roughly, since 1900 the rise in prices seems to have been associated with the increase in the volume of the rupees. If the inflation of the rupee currency has already begun to operate, we may execpt that in the near future the rise will be still more marked. This possibility is serious; already some of the highest authorities have given this rise in prices as one of the chief causes of Indian unrest. We know by theory, with abundant historical verification, that in a rise of prices due to inconvertible paper or any analogous cause the mercantile and trading classe gain at the expense of the masses. Even if the rise in prices is due to an increase of gold, until the period of transition is over the same rule seems to apply. In the case of gold, however, there are natural economic forces which in time must limit the monetary supply, and so far the level of prices, but in a managed curreny such as the rupee these natural forces are absent or weakened. No one, for example, would melt down rupees to make ornaments, but gold coins are constantly so melted. Even the Goveremcnt is not likely to contract the currency by melting down rupees, unless the evil of inflation has become intolerable. But after a certain point is reached in the inflation, the general depreciation in the purchasing power of the rupee must be followed by a specific depreciation as regards gold; and if this is the case then the main object of the whold policy is defeated.

To prevent misapprehension, two supplementary obserations may be made. The Report does no doubt, pay considerable attention to possible development of banking and the use of bank-notes and so far considers the medium of exchange from

the point of view of internal reqirements. But when we are told that 90 per cent of the Indian people cannot read, and when we know they are very poor, this development of credit is only likely to increase the rapidity of the inflation of rupee prices. The Report seems to think it an evil if gold replaces notes in the circulation, though the notes are only convertible into rupees.

The other observation is of a more general character. It may be said that the criticism here offered would apply to any form of the gold-exchange standard. So far as the conditions are essentially the same, this is quite true; but the general arguments is too large to be considered in this place.—*The Economic Journal, June, 1914.*

APPENDIX—F.

India Office Finance.

BY ASIATICUS.

With reference to the report of the Royal Commission on Indian Currency and Finance, "Asiaticus" writes in the *National Review* for April :—

The Secretary of State has control of very large sums belonging to India. To advise him in his financial transactions, he had upon his Council certain magnates of the City of London. These gentlemen from the City were never slighted or thrust aside, as was for a time the rule in the case of the eminent administrators from India who formed the bulk of Council. The City members, in fact gradually became all powerful in the India Office. They were listened to with bated breath. They were allowed to do what they liked and paid for it. Even Secretaries of State, fresh from their books or from the little colonies, deferred to their judgment and dutifully obeyed their behest. They were magnates in the City, these gentlemen, but they strode through Whitehall like demi-gods. Yet though the India Office knew very little about finance, and therefore sought help from without, there was one permanent official within its

walls who had a marvellous familiarity with the subject. This was Mr. Lionel Abrahams, C. B. now a full blown Assistant Under Secretary of State, and Clerk of the Council of India. Mr. Abrahams is one of those extraordinarily clever men who occasionally blossom in our Civil Service. He reminds one of that other official of whom, when he was at the India Office, the late Lord Wolverhampton used to say "Look at that man, now. He could get ten thousand a year in the City any day. And how much do you think we pay him? Why, a paltry twelve hundred a year. When, that man says so-and-so, how do you suppose I can go against him?" Mr. Abrahams is a man of similar type. He has astonishing capacity, indomitable industry, and he is perfectly honest and sincere. He knows so much more about all these subjects than any body else, and he exercises so much unseen influence that no one can stand against him. If he had elected to serve in India and not in London, his fate would have been pre-ordained. They are always a little frightened of such men in India and have quaint methods of dealing with them. Because he has a positive genius for finance, Mr. Abrahams would assuredly have been set to work making railway embankments, or shepherding refactory Maharajas, or chasing dacoits in Burma, or some other task for which he is probably totally unfitted. I am not at all sure that the system is a wrong one. It saves a great deal of quite superfluous trouble. For instance, at present, Mr. Abrahams has conceived that a State Bank on a huge scale would be the best panacea for India's financial ills. He has produced a portentous memorandum and offered reams of evidence, in support of his belief. India has never asked for a State Bank. Most of the witnesses before the Commision were dead against

the scheme. But Mr. Abrahams favours it. He has several allies, he has the ear of the India Office, and it is not at all improbable that he and those who think as he does will have their way. These things help to account for the fervour with which the Government of India, on their own ground persist in cherishing the view that railway embankments and refractory Maharajas have their peculiar uses.

Certain changes in the financial policy of India have of late placed enormous floating balances and other tremendous sums under the control of the Secretary of State. There was a time when Lord Morley, good innocent man, positively boasted of the gigantic financial patronage he, was thus able to exercise. At a meeting of the Bankers' Association he said with pride that the maturing and lending of his cash balances amounted to £ 16,000,000 a year, and that the India Office was responsible in the year 1910-11 for a turnover of £ 160,000,000. This unprecedented financial patronage, for which the City can show no parallel, was not exercised in reality by the Secretary of State at all, nor ex-administrators from India who sit on his Council have any effective share in it. It was really exercised by the gentlemen from the City, which the incomparable Mr. Abrahams somewhere in the background. Let us not criticise them for undertaking, these necessary duties. The work naturally and inevitably fell to them, and they had to do it ; but what India said, and what onlookers said, was that a terrific power in the money-market was being placed in the hands of two or three bankers and a still comparatively young permanent official. It was not good, it was not wholesome that much power should be quite casually entrusted to three or four men who were really

responsible to no one. Whether they did the work well did not matter. The system was in any case wrong. India went a good deal further, however. There were voices in India which began to protest that the work was not well done, that City interests were favoured rather than Indian interests, that the whole procedure needed investigation and that there were features about it which required to be brought to light. How far these strictures were justified we shall see later.

The Silver Purchases.

Put in a sentence the Bank of England had the business of buying silver for the India Office, and Messrs. Samuel Montagu and Co. secretly got it away from the Bank. So short is public memory now a days that certain Government organs have been permitted to assert quite recently without contradiction that Messrs. Montagu and Co. made the purchases at the invitation of the India Office. Such is not the case. Messrs. Montagu asked for the business in an unofficial letter to Sir Felix Schuster, the Chairman of the Finance Committee of the India Council and they got it. Whether they prevented the success of an alleged "corner" in silver, and whether they made or lost money themselves, are questions of minor moment. They did not make the proposal from patriotic motive, but as a matter of business. The whole transaction was nevertheless a perfectly honest one. It raises points of discretion and good taste, and not of integrity. The salient facts in this connection are that the deal was kept secret from Sir Stuart Samuel, the head of the firm, because he happened to be a Member of Parliament; that it was kept secret from Mr. Edwin Montagu, then Under-Secretary of State for India, with the right to sit on the Finance Committee because of his "close

relationship" to the firm; that it was initiated in an unofficial letter to Sir Felix Schuster, who is Governor of the Union of London and Smiths Bank, which happens to number Messrs. Montagu Co., among its clients and that it was kept secret from the Bank of England although the Bank believed that under a *verbal arrangement with Lord Inchcape*, subsequently confirmed in writing, the silver purchases for the India Office were to be exclusively undertaken by them. It is interesting to observe that the note of the terms, upon which the Bank of England relied, was "written on India Office paper in Mr. Abrahams' own handwriting." That is perhaps all that need be said about the silver purchases. It was the verbal arrangements, the unofficial letters, the secrecy from this person and from that, the hole and corner character of the whole transaction, the apparent tricking of the Bank of England, the undue intimacy of the affair, that the public condemned, and rightly condemned. There was nothing morally wrong about it, but it was highly injudicious and inexpedient.

The India Office and the City.

Asiaticus proceeds :—

"Our trusty and well-beloved" subjects forming the Commission had to enquire into many things, but one question commended to their attention was the problem of what those estimable City gentlemen, Lord Inchcape, Sir Felix Schuster, and the rest, with the inevitable Mr. Abrahams in the rear had been doing with the Secretary of State's balances. Had they administered them wisely and well, or had they not? It had already become known that portions of these

balances had been placed on deposit in banks with which members of the Finance Committee were connected, and suggestion had been made that these deposits were at uncommonly low rates of interest. For instance, the Union of London and Smiths Bank of which Sir Felix Schuster is the Governor, had on deposit without security in 1911 over £3,084,000, of Indian money. The *National* Provincial Bank England of which Lord Inchcape is a director had repeatedly held large sums in a similar way. In 1912 when he had ceased to be a member of the India Council, it held on deposit £1,300,000 of Indian money. Again it was known that Messrs. Samuel Montagu and Co. had borrowed from the Secretary of State, and repaid an annual sum averaging £2,000,000 ever since 1908. The contention was that in practice the firm had received what amounts to "permanent loan": at the rate ordinarily payable for "short term loans"; and the same contention is applied to various other favoured firms. There was again nothing morally wrong in any of these transactions. The Secretary of State had long been accustomed to make short term loans, from his surplus balances to approved firms in the City; until only recent years he never had a great deal to lend. When is balances at length swelled enormously, he could not find enough borrowers in the City. A good many City firms do not care to borrow big sums for very short periods, and not all of them seem to have been given facilities for almost continuous borrowing. Lord Inchcape, who was then Chairman of the Finance Committee, thereupon made the ingenious suggestion that the large balances unutilised for loans might be placed on temporary deposit in joint stock banks. The suggestion was possibly a good one, though many people in India do not think so? But what

was perhaps unfortunate was that two of the first four banks selected for this purpose were Lord Inchcape's own and Sir Felix Schuster's. Observe the great delicacy and considertion of these City gentlemen in their attitude towards each other. Being Chairman of the Finance Committee, Lord Inchcape was blushingly compelled himself to suggest his own bank as a suitable receptacle for India' s surplus cash ; but when it came to Sir Felix Schuster' s bank he explains. "I would like to say that these deposits were made with my sanction, without any reference to Sir Felix Schuster. Sir Felix Schuster and I never discussed the apportionment of these deposits, nor did we discuss the matter of rates." A very nice and proper feeling; but one rather wonders whether the demi-gods ever winked at each other. It is clear, nevertheless, that when Lord Inchcape was instructing the India Office broker to make these huge deposits in joint stock banks, he had his embarrassing moments. Other banks might have wanted these deposits, and might have offered better terms. But when torn between his conflicting emotions as a banker, and as a custodian of India' s money, he never flinched, as is shown by his answers to the following questions.

10,707. Are you satisfied as a business man that you did in fact get the best rates—I will not say in every single instance?—I always did the very best I could for the Secretary of State. I put myself in the place of the Secretary of State, and I dealt in reference to his money precisely as if I were dealing with my own. I got the very best rate I possibly could. With regard the deposits in the National Provincial Bank, I squeezed the very last penny out of them.

10,708. That was your own bank?—Yes, my own bank. It was the business of the manager of the Bank to get the money from me on the best terms he could, and it was my business to get the best that I could from the manager of the Bank. He knew that perfectly well.

Very nice and proper again; a positively idyllic scene between the relentless Committeeman and the importunate Manager. Sir Felix Schuster was equally austere when in turn he became Chairman of the Finance Committee, as is shown by the following answer:

11,001. Suppose that the Accountant-General and the broker proposed to make an additional deposit with your own Bank; what would be your position then?—Of course I considered myself in that matter as representing the Secretary of State and not my own Bank. It was my duty to get the best possible rate for the Secretary of State. I, representing the Secretary of State, asked our Manager or get the broker to ask our manager. What is the best rate you can allow for this deposit? I got that answer from him without interfering myself in my position as a Director of a Bank. Having had that rate given by our Manager I told the broker. Our Bank will allow say 3½ per cent; now that is the best rate from them you try and get a higher rate at other Banks if you can. He did and I got the information from him that he had been to A, B and C Banks who would only allow so much; if that rate was worse then our rate would be accepted, but if it was better our deposit would be paid off. On several occasions certainly we declined it because it did not suit us to take it.

Now, no one need dout that these gentlemen give these answers in perfect good faith. It may further be conceded that these answers no doubt represented precisely what passed that nothing untoward occurred, and that the money was placed on deposit in their own banks at just as good a rate of interest as might have been obtained anywhere else. That is not the question. The puestion is whether it is wise and expedient for gentlemen holding confidential paid position as advisers, to the Secretary of State, to be directing and controlling financial transactions between the India Office and the institution with which they happen to be connected in another capactiy? May not their proceedings be open to misconception? And there are other questions which arise. Why do these wealthy financial magnates consent to serve year after year, for pay which must be a matter of entire indifference to them, upon India Office Committee? Is it from pure patriotism or from a kindly desire to steer the innocent Lord Morley and the inexperienced Lord Crewe through the mazes of the money-market ? Is it because one way to baronetcies and coronets lies through the portals of Whitehall? Is it because they seek the immense financial patronage which is eagerly placed at their disposal? Has India any justification for saying that they have let her balances pile up for the benefit of the London money-market? And does the India Office really require so much advice from these self-sacrificing gentlemen?

The touching pictures of these financial dignitaries wrestling with their own Managers from a pure and fervent desire to do their best for the Secretary of State— that helpless and

childlike being!—may be perfectly accurate. The spectacle of that pathetic martyr to public duty, Lord Inchcape "squeezing the very last penny" out of his own Bank sooner than India should suffer loss, may be entirely believable. These simple and affecting narratives will not be questioned here. But is it right and expedient that the Secretary of State through his ignorance of finance and the money market, should put these self-sacrificing gentlemen in a position which *might easily have become invidious* if they had not been so very careful? Is it wise that the Government should place so much control of the London money market in the hands of private individuals, however helpful their advice may sometimes be? Is all the critisism that has been heard unfounded? Is there, on the facts disclosed, absolutely no foundation for the frequent statement that the finances of India in London had got into the hands of a little clique, which managed the entire business in a hole-and-corner way, not always to its own disadvantage, which cared very little about India and a great deal about the London money-market? I shall not answer these questions. Readers may judge for themselves. Two points only remain to be noted in this connection. The first is that the Commission thinks that "undue prominence" has been given to "City experience" on the Finance Committee of the Council of India, and recommends that in future only one City member should be appointed. The second is a point which the Commission ought to have recommended, but did not. It is that no City member of the Finance Committee *should retain his seat* if the India Office enters into any financial transactions with any institution with which he may happen to be intimately associated. Only thus will misconceptions be in future avoided.

Mr. Abrahams and the State Bank.

Towards its close the article returns again to Mr. Abrahams:—

Mr. Abrahams has a fascination which never flags. He is so ready, so delightfully omniscient, so serenely confident, so sure of his aims. Take just one little touch. He is taking of the best way of seeking City advice, and parenthetically observes: "So long as we have a broker of our own, *that is until he is swept away by a State Bank*." You note the quietly masterful assumption. No one, save Mr. Abrahams, has decided on a State Bank; even the modest Royal Commissoners would make no recommendation about it, one way or the other. But Mr. Abrahams seems to want a State Bank and in his vision the thing is settled. If it is, it would probably be found in practice to have perpetuated at the London end the very defects of control which are now so much assailed. Thoughts of this kind do not disturb our incomparable Assistant Under Secretary. He committed himself to the remarkable statement that there was no one in the India Office with Indian experience of finance, but there was "an enormous amount of written experience," and "the number of people who are extremely familiar with the written experience is *quite satisfactory*." If the India Office prefers to control India, and to decide great issues, on third hand knowledge of "written experience" instead of consultation with the actual experience, a good many things which have hitherto puzzled many people become plain. It is a quaint, complacent place, the India Office. Everybody is so entirely pleased with everybody else, and they all toil until their eyes grow dim over "the enormous amount of

written experience which the office contains." They work so hard at controlling India. Consider the pathos of Mr. Abrahams' account of the woes of the Financial Secretary, an office he has recently vacated: "The burden is heavier than one man should bear. He may have to deal with large questions when jaded and pressed with conflicting duties: he cannot attempt keep up as he should like his general financial and economic, knowledge; he is likely to break down at intervals from overwork". Deplorable! And yet there are ignorant people who continue to think of the India Office as a placid duck-pond which wants stirring up now and then with a long pole.

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